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Duma Attempt To Link START II Ratification

954F2896A Moscow MOSKOVSKIYE NOVOSTI in Russian No 42, 25 Jun-2 Jul 95 p 14

[Article by Yuriy Fedorov, professor at the Moscow State International Relations Institute: "What Is Behind the Bargaining Over START II?"]

[FBIS Translated Text] "We are swapping ratification of the START II Treaty for a promise concerning the nonenlargement of NATO"—thus, or approximately thus, is how both parliament and the Kremlin are now formulating their approach to the key Russian- American agreement. The treaty, which was concluded in January 1993, is still in a state of "suspension," although it has been presented to the Duma for ratification by the president.

The Kremlin prefers not to discuss the scenarios and time frame of ratification. But it significantly gives a reminder of the words of Sergey Karaganov, member of the Presidential Council, spoken back at the height of the preparation of START II: "For political reasons, Russia should not be concerned to see an acceleration of the process of strategic arms reduction. We hardly have an interest, either, in the rapid development of a new round of negotiations on a reduction in strategic arms, since we would be participating in bargaining with practically no trump cards."

The legislators are more candid. The "bargaining" idea was given voice by Vladimir Shumeyko, speaker of the Federation Council. Vladimir Lukin, chairman of the State Duma Committee for International Relations, added: It will be hard to explain to the Russian people why we are continuing to disarm at a time when the biggest military machine in the world is getting closer to our borders.

It is not the first time that the question of the relationship of START II and NATO policy has arisen in our parliament. The problem was raised back in 1993, when the Supreme Soviet of Russia began to discuss the treaty that had just been signed. The official response sent in this connection to parliament by the ministers of defense and foreign affairs said that "the North Atlantic alliance has confirmed that the basis of its policy is the principle of the use of force only in the event of force being used against any of its participants."

But even if it is imagined that there has been a sharp change in the situation with the decision to admit to NATO the states of Central and East Europe, some relationship with the possibility of "pressuring" the United States on the question of START II can hardly be discerned here. In fact, START II, which presupposes a radical reduction—to 3,500 warheads—in Russian and American strategic arms with the destruction of ground-based multiple-warhead ballistic missiles, was not a result of the fact that the Kremlin had suddenly become imbued with a spirit of strategic partnership with the United States. Russia's position was determined by far more prosaic circumstances.

First and foremost, as the leaders of the Ministry of Defense themselves emphasized, of the nine classes of missile systems in the arsenal of the Strategic Missile Forces at the time the treaty was signed, only two would by the year 2003 still be under manufacturer's service and operation warranty. Consequently, Russia was faced with the choice of either destroying the aging missiles, including the most efficient "heavy" SS-18's, or attempting to extend their service life, constantly replacing the failing components. But there are limits to this. For example, the solid fuel decomposes, and cracks form in it, which could signify irreversible consequences. The liquid fuel, in turn, corrodes the casing of the tanks, and so forth. Three classes of the Russian multiple-warhead ICBM's, including SS-18's and the most modern SS- 24's with 10 warheads, were manufactured in Ukraine here. They can only be maintained in combat-capable condition with the aid of Ukrainian enterprises on the basis of long-term cooperation. But Russian-Ukrainian relations are far from cloudless, and making the development of Russia's strategic potential dependent on Ukrainian affairs was deemed imprudent.

Further, the disintegration of the USSR and the most acute economic crisis made impracticable the production in Russia of more than one class of ground-based ICBM's with a single-warhead reentry vehicle. But even in this case, as General Svetikov, deputy chief of the Missile Forces Directorate, declared, "We had a job uniting approximately 700 design bureaus, research institutes, and plants.... Setting up cooperation now in the modernization, in addition, of missiles with multiple reentry vehicles would be impracticable." Finally, the number of Russian missile-firing submarines will in the next decade inevitably be reduced more than twofold—to 24, possibly, to 18, even. The submarines will, naturally, be decommissioned, and the production of new ones was terminated at the end of the 1980's and has yet to be resumed.

As a result, there remained to Russia just one prudent course of action: to attempt by treaty to compel the United States to reduce its strategic arms to limits commensurable to those which Russia would have at the start of the 21st century. Otherwise, Russian arms would be reduced themselves as a result of the failure of the corresponding systems of up to approximately 3,000 warheads, whereas the United States without a

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serious change in its plans and without undue strain would have on strategic delivery systems from 7,000 to 9,000 warheads.

Having signed the START II Treaty, having, included, agreed to an appreciable reduction in the numbers of warheads in the sea and air components of the strategic triad, the United States made a fundamental concession to Russia. It simply did not have, as it does not now either, the funds for maintaining its strategic arms at the 7,000-9,000 warhead level.

Thwarting ratification of START II or dragging it out is not that difficult. But we need to be clearly aware when venturing upon this step of all the consequences. Politically, this would be seen as yet further evidence that it is hardly worth doing business with present-day Russia and concluding serious accords. This would, most likely, be perceived also as an indication that the part of the elite that has long been opposed to nuclear disarmament is beginning to dominate in Moscow. In the event of the "bargaining game" really being elevated to the level of official policy, a number of fundamental questions will have to be answered also. The first is for the politicians: Is there a real guarantee that it will be possible in this way to avert the incorporation in NATO of the Central and East European countries? The second is for the military: Has a realistic prospect of cooperation with Ukraine in the missile sphere, making it possible to restore the production of multiple-warhead missiles or, at least, to maintain them in a combat-capable condition for a sufficient length of time emerged? Grounds for an affirmative response to these questions cannot be discerned at this time.

Changing Political Priorities Examined

954F2832A Moscow MOSKOVSKIYE NOVOSTI in Russian 18-25 Jun 95 No 42, p 10

[Article by Sanobar Shermatova, under the "Eurasia—Central Asia" rubric: "A Double-Edged Proximity"]

[FBIS Translated Text] Central Asia, it seems, is considerably changing its political priorities. The latest announcements of President Emomali Rakhmonov have again confirmed that Tajikistan, placing its bets on Moscow, is prepared partially to sacrifice its relations with its nearest neighbors in Central Asia. Turkmenistan's position remains unchanged: to intensify cooperation with Russia and it southern neighbors (Iran, Turkey) and to maximally distance itself from both the Commonwealth of Independent States and the Central Asian Union, into which Kazakhstan, Uzbekistan, and Kyrgyzstan have entered. In their turn, these states are attempting to combine membership in the Asiatic "troika" with the Customs Union (which Kazakhstan has entered and to which Kyrgyzstan and Uzbekistan have submitted an application).

Nevertheless, against the backdrop of the general discussion on the benefits of integration within the framework of the Commonwealth, the general tendency is becoming more and more concrete: Russia is losing its positions in Central Asia. First of all, this is connected with the situation in Tajikistan. As it has turned out, Russia and Uzbekistan hold different positions on this question. Kyrgyzstan and Kazakhstan have also demonstrated support for Uzbekistan. And the growing diplomatic activity of the United States in this region has given Moscow grounds to suspect Tashkent of reorienting itself on the West.

In actual fact, Tashkent has recently been setting up political and economic cooperation with international organizations, linking with them prospects for structural restructuring of the economy and the formation on the international arena of a favorable image of the state. Kyrgyzstan's economy is gaining stability thanks to the assistance of international financial organizations, which support the government's tough anti-inflationary steps. Kazakhstan is attempting to attract both Western investments and Russian help in developing its extremely rich oil fields. Does this mean that Russia is being edged out of Central Asia?

"Russia will be here forever." This was said at the Central Asian Conference on Regional Cooperation, which was held at the beginning of June on the shores of Lake Issyk-Kul, by one of the representatives of the organizer of the conference—the UN Development Program.

Russia's special role in this region is acknowledged by perhaps all of the international partners of Central Asian states. However, not everyone sees eye to eye when the question touches on Russia's military presence in these states; this was demonstrated by the visit of Pentagon Chief William Perry, who promised Tashkent and Almaty help in building national armies.

Will the West help Central Asia? It seems that this romantic myth has begun to be dispelled. For the developed states of the world, the most important partner was and remains Russia, with its nuclear and economic potential. At the same time, international organizations like the UN and the Organization for Security and Cooperation in Europe, by virtue of their overstrained budgets, while acknowledging Russia's special role in the region, are hardly likely to intervene actively in a situation if help is needed in the preservation of states' integrity. There are even fewer hopes in the Commonwealth, whose integrationist mechanisms are working with glitches. Russia has partially lost its attractiveness

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as a military and economic partner for Uzbekistan, but has kept it for Tajikistan, and in some measure for Kyrgyzstan and Kazakhstan. In the opinion of political science professor Marty Alcott, from Colgate University (United States), each of the five republics has different strong and weak aspects, which require varying degrees of sovereignty.

Densely populated and economically developed Uzbekistan, located in the center of Central Asia, can afford a greater degree of independence than Kazakhstan, which has an extensive, open border with Russia and a population of which half feels loyalty with respect to its gigantic northern neighbor. So both geography and demographics dictate the necessity for Kazakhstan and Russia to remained bound together, whether they want this or not. Kyrgyzstan and Tajikistan have even less choice: They must rely on the help of foreign forces or disappear as states. They, most likely, must fear too much sovereignty rather than too little. And finally, Turkmenistan, which, according to Professor Alcott, is a simultaneously rich (reserves of energy sources) and poor (weakly developed infrastructure) state, still depends on Russia to a significant degree in the sale of its natural gas.

This signifies that the internal and foreign political situation dictates to each country of the Asian five the necessity, to varying degrees, of integration both within the Commonwealth and with Russia.

And still, despite the difference in their situations, a danger common to all five states is growing. Kyrgyzstan President Akayev spoke of this, declaring that Central Asia could turn into "a region with a marginalized status," characterized by a low level of economic development and enormous foreign debts. In order to avoid this misfortune, Akayev proposed the creation of a council for stable development common to the Asian five. On the basis of regular monitoring of the general condition of the world economy and its possible influence on Central Asia, the council could carry out long-term strategic policy on the scale of the entire region. Put a different way, Central Asia, in order to avoid the fate of becoming a raw materials appendage of developed countries, must formulate general rules of cooperation with wealthy states.

The idea of regional cooperation in the area of economics, demographics, and cleanup after natural and ecological disasters has long hovered in the air. Its adherents believe that in the third millennium, harmonious neighborliness and regional cooperation will turn into a political factor. Its opponents, although not overtly, make it clear that their hopes rest on completely different factors: becoming part of a strong Russia, the rebirth of the USSR (Tajikistan), or on energy potential, which would make it possible to receive fantastic profits (Turkmenistan).

On the way to harmonious neighborliness, one may stumble against yet one more impediment: Without guaranteeing peace and security in the region, the efforts at integration could come to nothing. It is the situation in Tajikistan, which is today far from stability, that represents the main military danger. Will the idea of regional integration and security get specific mechanisms for its realization? This question remains open. It seems, in any event, that its adherents intend also to act further: Negotiations are proceeding on the convening of a conference on security and confidence measures with the participation of the Central Asian five, Russia, Afghanistan, Pakistan, India, Iran, and China in Tashkent under the aegis of the UN and with the participation of major international organizations.

Mechanisms, Motives in Chechnya Revealed

954F2866A Moscow ZAVTRA in Russian Jul 95 No 28, pp 1, 4

[Article by Sergey Andreyev: "The Day of Reckoning Will Come: "Patriotic Special Services Warn Traitors"]

[FBIS Translated Text] In the No. 10—March—issue of ZAVTRA, we published information on the statement General A. Kulikov made in Mozdok at the closed-door military conference on 27 February. Enumerating urgent measures needed for "pacification" of Chechnya, Kulikov demanded that the federal center crack down on the operations of Russian banks providing nourishment for Dudayev's regime and his combat and propaganda operations.

In response to this publication, material came by fax to the ZAVTRA editorial offices, which we are now publishing. This material reveals secret mechanisms of the Chechen war, the motives for first unleashing this war and then suspending it. It sheds light on the horrible inner side of the current regime in Russia.

Most likely, "Sergey Andreyev" is a pen name for the author, who most probably works for special services, where a patriotic core still remains.

In publishing this material, we appeal once again to the Duma security committee, headed by V. Ilyukhin, and S. Govorukhin's commission: Initiate a political and criminal investigation of the facts enumerated below, which make Russia a criminal empire of the century.

Lately, the mass media of certain persuasions have been paying close attention to domestic organized crime and its international ties. Over the May-June period alone, MOSKOVSKIYE NOVOSTI, SEGODNYA,

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and MOSKOVSKIY KOMSOMOLETS devoted whole pages to such deceased and current linchpins of the criminal world as Rospis, Zakhar, Sylvester, Robinson, Globe, and so on. A particular commotion—and not only in the press but also in the RF [Russian Federation] MVD [Ministry of Internal Affairs]—was caused by the arrest in the United States of the crime king Yaponchik ["Little Japanese"]. At the same time, considerably less attention is being devoted to criminal groups consisting of ethnic minorities from the Caucasus. And nothing at all is being said about banking structures' criminal activities. Thus, the public is getting the impression that all organized crime in the former USSR is limited to all sorts of Yaponchiks, Zakhars, and Solntsevo gangs.

Such a picture, however, is absolutely distorted. Of course, the problem of crime bosses does exist and by itself is quite serious. We should not, however, look for the sources of domestic organized crime here. The biggest criminal groups are actually the banking structures, closely linked with international criminal associations and exerting serious influence on the political life and information policy of the country. In this connection it is not at all surprising that the mass media they control are trying so actively to shift public attention from criminal activities on the part of bankers and "democratic" camp politicians to the much lesser-scale activities of criminal groups of traditional type.

It should be said that the general banking situation in Russia today is extremely unstable, even compared to the period of the second half of 1994. It became considerably more difficult from both the standpoint of political relations and the changes in the economic situation. Instability reflects the process of the changing internal balance of forces in the Russian economy, and in the political and criminal elite. In this connection one can say with certainty that the degree of riskiness of operations with Russian banking structures [as published] has increased considerably lately and probably will continue increasing. The fundamental element that determines potential development of the banking system is the growing conflict between the Central Bank and several of the largest banks. Among these banks are Inkombank, Credo-Bank, ONEXIM- Bank [United Export-Import Bank], Tokobank, and some others. This conflict, which, in analysts' opinion, has predominantly criminal- commercial roots, creates another layer in the latent positional conflict between President B. Yeltsin and Prime Minister V. Chernomyrdin, who in their confrontation try to draw, among other things, on the support of different financial capital groups.

A symptom of the tension in the banking sphere is the fact that some major banks are trying to use their people to lobby the State Duma deputy corps, preventing the confirmation of T. Paramonova as Central Bank chairman; the president, however, so far fully supports her. (Interestingly, a Ministry of Finance group has been operating in the Duma since the summer of 1994, tracking deputies' lobbyist connections). In general, it cannot be ruled out that in the near future a score of large banks may be subjected to active politico- administrative pressure from the presidential structures, and the situation may develop to the point of closing them on administrative grounds for certain, even insignificant, violations of the banking legislation, which is extremely convoluted and contradictory. Right now, active pressure is increasing on three banks: Alpha-Bank, ONEXIM-Bank, and Incombank. Interestingly, all three are among the 10 largest banks in the country (in the past, the next 10 largest used to be subjected to such frank administrative pressure). This is due to the fact that, first, these banks tried at the end of 1994- beginning of 1995 to actively utilize financial play mechanisms (with Russian domestic financial instruments), which could destabilize the situation; and second, their management too obviously began to move closer to Chernomyrdin's camp.

In the case of Alpha-Bank, however, there are suspicions that it is involved in laundering the money for the Russian and Latin American drug mafia.

In general, connections of some people, currently associated with Alpha-Bank, with drug dealers had been traced to the fall of 1991, that is, the time when P. Aven was appointed minister of foreign trade. By that time, through the efforts of the Burmese drug baron Khun Sa and the Soviet drug and arms smuggler Kolyan, a major channel for heroin trafficking had been set up from Burma to the Far East via Laos and the USSR Navy material and technical maintenance base in Kamran (Vietnam). On the receiving end, the "cargo" went to racketeer Aslanbek, who showed up in Nakhodka in 1989 and represented the interests of a Chechen criminal group from Gudermes, until 1990 headed by the former MVD officer Ruslan and then, after the murder of Ruslan, by his brother Said and a relative Sultan (who in 1992 was placed in charge of Dudayev's state security department—the DGB). Through this group's channels, the drug (usually disguised as flour or granulated sugar) proceeded to the central part of the RSFSR. Then the heroin was shipped through Western Group Forces military channels to Germany, where it was sold to Sicilian and Kosovo Albanian mafiosi. There have been reports that after a man from the MFER [Ministry of Foreign Economic Relations] joined the "business," the drugs began coming to Russia from Vietnam on merchant, instead of navy, vessels under the guise of semi-finished products for the furniture industry. Agents maintain that their transportation abroad, mainly to Vi-

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enna, was sometimes done even in the personal luggage of one of Gaydar's ministers.

At the end of 1992 the transit of drugs through Vietnam and Nakhodka became impossible and they were rerouted through the Yemen- Groznyy channel. There were several reasons for this. First, the Vietnamese MVD has managed to liquidate a group of local drug traffickers in Kamran and Sholon (a Saigon suburb). Second, Aslanbek's positions in Nakhodka got seriously undermined. This was due to the fact that a competing criminal group emerged there, headed by a certain Davydkin, released from prison in the middle of 1992. This group, which, after Davydkin's murder in the spring of 1993, was headed by a certain Vytiraylov, for a certain time succeeded in putting under its control practically the entire criminal-economic sphere of Nakhodka and imposed a "levy" not only on local businessmen but also on Aslanbek himself. Interestingly, timewise it coincided with the resignation of the aforementioned MFER official, who soon became close to Alpha-Bank. It was then that reports began to appear regarding reorientation of this person's activities from drug trafficking to drug money laundering—first by the Moscow and Chechen groups and later by Colombian and Peruvian ones.

This activity continues to this day, although later on the aforementioned person resumed his participation in drug trafficking as well. It so happened that by the middle of 1994 the Chechens ran into a score of problems in Yemen, where a civil war flared up. This prompted Sultan and Said to resurrect the Nakhodka drug channel. A brigade headed by racketeer Vakha—a Chechen DGB officer, who had long-standing ties among local gold prospectors—was dispatched to Maritime Kray. As a result of his efforts, Vytiraylov's group was seriously weakened, and the Chechen were able to restore their drug business in the Far East. The heroin, however, now came to them through a different route—from Burma via all over China (where common language was found with one of the Hong Kong triads that has built numerous branches in the PRC), then through the border to the Far East. The drugs were transported out of Nakhodka mainly by sea, through the route set up by the Chechens' criminal partner Ilyich, a former chekist and currently a businessman living in London. Ilyich's partners are Mexicans from the Tijuana drug cartel and some persons from the Moon sect, with criminal connections in South Korea and California. Our "banker," on the other hand, ended up with a considerably less desirable piece—transporting heroin from Nakhodka by rail in the Western direction.

A remarkable scandal broke out in this connection recently. Several strange occurrences of poisoning among the population were registered in one of the Siberian regions. To the surprise of medical practitioners and law enforcement organs, it was established that the rural population's poisoning had been caused by the use of opium-based narcotic substances. It turned out that the drug was mixed in the sugar purchased from a railroad station employee. The latter confessed that he had stolen several sacks of granulated sugar from a freight train. It turned out later that the "sugar" consignment belonged to the Alpha-EKO company, among whose founders is Alpha-Estate—a subsidiary of Alpha-Bank. An investigation was launched. MVD people, however, view its prospects without much enthusiasm. "It is Petya again. Which means the case will hang forever," commented on the situation one of them.

We should view in the same context the proposal of the so-called "consortium of the largest banks" (although formally it is not a consortium and its members are not necessarily the largest banks) to transfer into trust management the government's share of stocks in the largest Russian enterprises—such as LUKoil, YuKOS, Surgutneftegaz, Rosneft, SIDANKO, the Eastern Oil Company, Komineft, EES [Unified Power Generation Grid] RAO [all-Russia joint-stock company] of Russia, Mosenergo, Irkutskenergo, Krasnoyarskenergo, and Lenenergo; Norilsk, Sayansk, Krasnoyarsk, Bratsk, Achinsk, Chelyabinsk, Cherepovets, Magnitogorsk, Novolipetsk, West-Siberian, Oskol, and Nizhniy Tagil metallurgical combines; Sakhalin, Far-East, Maritime, Murmansk, and Novorossiysk steamship lines; as well as a score of major enterprises in timber processing, telecommunications, and the construction materials industry.

This proposal was far from driven by the desire to contribute to the country's economic growth. The aforementioned banks turned out too large and not sufficiently mobile in the current conditions. Having run into the prospect of being cut off from state money, and at the same time not wishing to make a long-term investment in industry and other producing sectors of the economy, they are trying to find a new sphere of application. In specialists' opinion, the credit line of 9 trillion rubles [R] ($2 billion) they offer is absolutely incommensurate with the value of the stocks they demand. The value of stocks on their wish list, in specialists' opinion, if they are sold through normal investment auctions or merely gradually sold through stock exchanges, may be as high as R35 trillion ($8 billion), and the annual net income from them—R2-3 trillion ($600 million).

Altogether, the bank consortium's proposals resemble an iceberg, whose underwater part is completely concealed from the public eye. The consortium's proposals strangely coincide in time with the attempt of Gilberto Rodriguez Orejualo, head of the Colombian Cali cartel

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(the cartel's annual net profit is estimated to be between $7 billion and $11 billion), better known under the nickname of Chess Player (he was arrested in June of this year), to launder and legalize large amounts of criminal money. It should be noted that attempts to launder Colombian drug dollars in Russia were registered for the first time four or five years ago and caused a scandal around the so-called "red mercury." The Colombian aspect in this scandal, however, remained largely outside the frame.

Then, in 1992-1993, Chess Player bet on the so-called "Moscow group." By the beginning of 1994, the following scheme for money laundering was put in place. From short-lived shell companies in so- called offshore zones (the Bahamas, Gibraltar, the Antilles, and others) the drug dollars went via a complex route to trust companies in London and New York. From there, the money (sometimes up to $400- 500 million a month) went to Russia, where it was converted into rubles and vouchers, which, with the aid of proxy companies and brokerage firms, were spent on purchasing the stocks of Russian enterprises undergoing privatization. Some time later these stocks were sold, frequently for less than the purchase cost. The proceeds in rubles—already "legal"—with the aid of the "Moscow group" and commercial structures associated with it, either were converted to dollars and taken out of the country (first to Israel and then Cyprus—up to $3 billion in 1993-1994), or were spent on purchases of raw materials, which were shipped abroad and sold. The dollars earned as a result of these operations, after deducting the commissions due Moscow partners, returned to Colombian drug dealers already laundered. Interestingly, this scheme was used not only by Colombians but also by the Imayev-Abubakarov (Dudayev regime ministers in charge of laundering and transferring abroad "dirty" money the Chechens received for arms smuggling, drug trafficking, and swindles perpetrated in the Russian financial-banking system) criminal group.

One way or the other, after the successes achieved in 1992-1994 in laundering "dirty" money in Russia, in the summer of 1994 the Colombians let it be known that they were ready to sharply increase the quantities of drug dollars offered for laundering. At first it was envisaged using for this purpose the so-called "Moscow group" and the Chechens closely associated with it. However, after some events of the second half of 1994, the Colombians began to doubt the solidity of their Moscow and Chechen partners positions and offered their counteragent—the American financial swindler Vesko (not too long ago arrested in Cuba) and the London-based Ilyich, Kostik, and Lesha (known in the Latin American drug business circles as Don Alex) to find more reliable partners. They chose several persons close to the future banking consortium. According to some data, in December of last year in London and in February of this year in one of Miami suburbs, meetings were held between Cali cartel representatives and their London counteragents with a group of people who had designs on the Imperial bank, on Gazprom RAO (headed by Chernomyrdin's buddy R. Vyakhirev and whose largest stockholder is Imperial), as well as on LogoVAZ.

A scheme, which later in a strange way became the foundation of the consortium's proposals, was discussed at the meetings. The Colombians expressed a willingness to immediately make $2-2.5 billion available to the consortium, which the latter was to loan to the government. Then, over the course of three years, up to $8 billion were seen as being spent on purchasing stocks from state- owned shares. Finally, it was envisaged to launder between $3 billion and $9 billion both by means of traditional methods (jointly with the "Moscow group" and by participating in the privatization of enterprises land lots and in the agrarian sector. Interestingly, in political terms the Colombians mainly bet on the founders of the future Our Home Is Russia [NDR] movement and its victory in the upcoming elections, which was to be facilitated by the so-called Russian Public Television, where the tone is set by LogoVAZ chief B. Berezovskiy and whose list of founders coincides to a large extent with the list of consortium leaders... And, naturally, both Berezovskiy himself and the NDR founders were unsuspecting of this.

Also interestingly, the banking consortium's proposal was preceded by a complete failure of the money-based privatization program in the first quarter of 1995 (bringing in less than 10 percent of the planned revenue), which was to a large extent due to open sabotage of investment auctions and the market for stocks financial structures were willing to consider (after which changes were made hastily in the privatization procedures, in particular, the possibility of privatizing enterprises' land lots), and the banking consortium's proposal itself was published.

In addition to economic and criminal problems affecting the situation in the banking sphere, we should also look separately at changes in the political sphere. In particular, the approaching 1995 parliamentary elections and 1996 presidential elections. Many bankers justifiably fear that a complete or partial change of the elite (and in current conditions, despite Yeltsin's clear aim at winning at any cost, the probability of his defeat is very high) will result in a principal change of the rules of the game and redistribution of financial resources. It can even happen without a profound change

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of the economic-political course (communists or liberal democrats coming to power), in the event of another, more economically engaged, figure replacing Yeltsin. Besides, the administrative-economic worsening of the environment for banking activities prompts moving the problem to the political level. On the one hand, none of the banks (with the exception of Most-Bank and Incombank) tries to openly and independently play in big politics, and in this sense the bankers have learned well the lesson taught to Gusinskiy. On the other hand, the degree of hidden, covert politicization of banking structures is growing increasingly, that is, the overwhelming majority of banking structures currently participate actively in the political game. At the same time, despite disagreements, they, as the aggregate economic institution, are trying to bargain from politicians an increasingly larger role for themselves.

At the same time, banks are getting divided in their attitude toward foreign capital. Some of them practically agree to become "junior partners" of foreign banking structures, while others vehemently object to it. The recent de facto organizational split of the consortium was partly due to this factor (in addition to delays in the implementation of the aforementioned proposal of the banking consortium to extend a credit line to the RF Government). The litmus test was the American investment company Merrill Lynch: Most medium-sized banks and some major ones, particularly those that maintain ties with presidential structures, felt extremely negatively about joint activities with the Americans.

The main banking groups currently are as follows. The pro- Chernomyrdin group is very diverse. It includes mainly the largest banking structures connected to some extent with the oil and gas complex and old Soviet power structures (Imperial, Vheshtorgbank, Incombank, Tokobank, Neftekhimbank, Unicombank, Conversbank), as well as some new banks that have allied themselves with Chernomyrdin out of political considerations (ONEXIM-Bank, Russian Credit, Agrobank, NGS-Bank). It would be wrong to believe that all its supporters are absolutely committed to Chernomyrdin and do not have additional room for maneuver—some of the banks already are trying to establish ties with Yeltsin's entourage, in particular, with V. Ilyushin (Incombank, which has connections in enforcement structures, and Unicombank, which has access to A. Lifshits). However, such banks as Imperial, ONEXIM, and Neftekhimbank have hitched themselves firmly to Chernomyrdin, and his fall will inevitably result in a serious crisis for them. Especially considering that they are too large to carry out a structural realignment. In addition, for some reason the Colombians link the potential positive decision on the aforementioned agreements with Chernomyrdin's victory.

The "regionals"—this group concentrates on supporting local "parties of power," which in their composition frequently differ from the "federal" one (for instance, a considerable share of Kemerovo banks and financial structures support A. Tuleyev, who is running against M. Kislyuk, Chernomyrdin's buddy and member of the Our Home Is Russia leadership. Significant regional banking groups have formed in Tyumen (where they make up an integrated and extremely corrupted whole with the local administration) and in the Far East (where they are neutral). In St. Petersburg, on the other hand, there is no such group.

As to the Moscow banking group, it is currently seriously weakened and politically split. This is due to its major political fiascoes over the past year. To understand the nature of these fiascoes, we need to look at the group's structural organization, which had emerged by the fall of 1994. Courtesy of ROSSIYSKAYA GAZETA, certain confusion exists in this respect. In particular, it was presented that the key figure in the group allegedly was the "best of mayors," who controlled the city government and, through his proteges Savostyanov and Pankratov, the capital's enforcement structures. V. Gusinskiy, head of Most-Bank—the Moscow government's principal authorized bank—was named as one of Yu. Luzhkov's people. And finally, "analysts" from Most's security structures, some of whom in the past held high-ranking positions in the USSR KGB, were mentioned as Gusinskiy's subordinates. In reality, it looks like the vertical chain was actually organized in reverse order, and the main role in the Moscow group was played by exactly these "analysts," who maintained strong ties with their former place of employment. Moreover, some of them, who previously had been associated with the KGB's Fifth Main Directorate, are assumed to have been able to keep a stable of their former "helpers," among whom one sees the names of currently very prominent bankers, journalists from odious "democratic" newspapers, popular television anchors, and many high- ranking bureaucrats and politicians—and not just in Russia but also in the "near-abroad" republics, such as, for instance, former Estonian Prime Minister M. Laar, better knows under the code name of "Forester." Interestingly, during the events of October 1993, after the takeover of the mayoralty by the Supreme Soviet forces, an attempt was made to find and retrieve documents from the archives of the former KGB's Fifth Main Directorate, which had been moved in 1991 to Most offices. It turned out later, however, that the documents already had been removed. And that the evacuation had been carried while the column of

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demonstrators was still fighting its way to the House of Soviets. Apparently, it is the concern for safety of these documents that explains the little-noticed presence of the top echelon of Most analysts in the House of Soviets.

Another important lever of "analysts'" influence were their ties to Cali cartel counteragents, who during the perestroyka years settled in London and New York. The importance of these ties was, on the one hand, that the latter knew the Colombian drug money laundering channels. On the other hand, these people were in a position to establish contacts with Shah—a former chekist and the leader of a criminal group operating in Uzbekistan in the sphere of drug trafficking and gold prospecting, with influence in I. Karimov's entourage—and Shah's representatives in Afghanistan, Gypsy and Abdul Khak, interested in laundering their criminal profits. Finally, "Londonites'" close ties with the Gudermes drug group, headed by Sultan and Said, helped to establish "business" contacts with former "helpers"—financial swindlers Imayev and Abubakarov. In practical terms, this could lead to consolidation of the Chechen mafia, strengthening Dudayev's criminal regime, and a de facto merger of Moscow private security structures, Chechen racketeer gangs, and the agent network of Dudayev's DGB, soon to be headed by Sultan. At the same time, Said and Chechen Vice President Z. Yandarbiyev helped to set up criminal links between the "Muscovites" and the Siauliai group, which found itself close to power in Lithuania after the 1992 elections and worked through the people named Romasis and Povilas of the Lithuanian MVD. Lithuania became the main transit point for smuggling, through which a considerable part of strategic reserves of nonferrous metals was shipped from the former USSR to the West. A large-scale channel for smuggling heroin to Germany, Austria, and England was also set to go through it. In a reciprocal direction, Said and Povilas established a channel for bringing Italian-made counterfeit dollars into the former Union by means of diplomatic pouch. Interestingly, an important role in all this was played by the notorious "General Dima" and a very high-ranking politician in Moscow who facilitated "Dima's" promotion to one of the principal players.

One way or the other, by the beginning of 1994 the "Most Empire" became just about the most recognizable and influential in the country. Apparently, this got into its cunning "analysts" heads. They had known for a long time what became obvious to the public only after the tragic events in Budennovsk: After the destruction of the KGB in 1991-94, for all practical purposes, our country was left without any special services capable of effectively countering organized crime, corruption, and terrorism. Against this background, the Main Intelligence Directorate of the RF Armed Forces' General Staff [GRU] probably remains the only more or less effective and the least corrupt structure. Perhaps, this was what was disturbing the sleep of the Moscow groups' "analysts," making them nervous?

This nervousness was particularly exacerbated by the rumors circulating since the beginning of 1994 of the alleged plans for creating within the GRU a formidable unit for protection of the constitutional system, partly staffed by former officers of the KGB's Fifth Main Directorate, who knew perfectly well all there was to know about these "analysts." The point is that protection of the constitutional system consists not only and not so much of suppression of dissidents—the field in which the most prominent "analysts" had made spectacular career—as it is countering criminalization of government and economic institutions, the political sphere, and the mass media.

It looks like in the final count a decision was made to destroy the GRU, the same way the KGB had been destroyed earlier. The surest way toward this goal was to remove Colonel General F.I. Ladygin and other top military intelligence officials from their jobs. The plan was to replace them with figures of the likes of V. Bakatin and Ye. Savostyanov. It would be best done imperceptibly for the public, however. And it looked like such a way was found. First, the "democratic" mass media was activated to spread slander and disinformation about military intelligence and the Armed Forces as a whole. In particular, people from Ye. Savostyanov's agency used, unbeknownst to him, reporter D. Kholodov. Then Kholodov was blown up in a bomb blast, while an attempt was made to blame the GRU for it. Later, in May of this year, a remarkable meeting took place at a Moscow suburban dacha in Zhukovka, during which "post-game analysis" was conducted. The conversation was between Shah, who arrived from Tashkent, and two Moscow group "analysts"—let us call them Zhenya and Denisych. Speaking of the events of the fall of last year, Denisych recalled how, taking advantage of the situation after D. Kholodov's murder, "Zhenya ordered Sasha (perhaps he meant journalist A. Minkin) to launch a campaign in the press for the removal of Pasha (that is, RF Minister of Defense, Army General P. Grachev)." The campaign was picked up by other prominent figures in the press and on television as well. However, its real target was not Grachev at all, and least of all General M. Burlakov. It is just that by removing Grachev and placing in this job own man, it would be easy to replace other top brass in the Armed Forces as well, including in military

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intelligence. After all, it is considered quite normal in our country for a new boss to bring in a new team.

The cunning plan backfired, however. Grachev could not be removed. Moreover, the frenzied antimilitary campaign in the mass media caused a counter reaction on the part of all uncorrupted elements in enforcement structures who were put in a position of having to defend themselves. Subsequent events, such as the publication of the article "Snow Is Falling," are public knowledge.

However, in this, too, a rather important fact escaped public attention. Which is—that in October of last year in Groznyy the Chechen opposition forces captured and handed over to the FSK [Federal Counterintelligence Service], which then brought him to the capital, Dudayev's "gray cardinal" Usman Imayev—the same one who now is conducting negotiations with A. Volskiy. In Moscow, he was handled by FSK officers under the general leadership of Savostyanov, who at the time supervised all counterintelligence operations aimed at overthrowing the Dudayev regime. By the way, interestingly enough, in the process of this supervision rank-and- file FSK personnel developed, as rumor holds it, a certain methodology for conducting disinformation operations against the enemy: All they needed to do was prepare a document deliberately distorting the real state of affairs, present it to Savostyanov as true, and one could expect with certainty that in an hour or so the Dudayevites would act in the desired direction.

So what did Imayev tell Savostyanov's people? He told the gullible FSK that the main thrust of criminal activities in Chechnya is allegedly not at all arms smuggling, drug trafficking, and laundering "dirty" money. On the contrary, the main income still— although it is not clear how—was being earned from the republic's oil industry, which had completely deteriorated by that time and which, on top of this, until the 1993 spring-summer period had been "supervised" by the opposition's Gantemirov and Mamodayev. Besides them, he listed as chief villains the late Utsiyev (killed in London in 1992) and a certain Albakovs, about whom more will be said later. Overall, to the mutual satisfaction of both parties, a rather logical and at first glance convincing version emerged. On the one hand, it fixed all the blame for criminal misdeeds in Chechnya on small fry and a dead man, and on the other shielded from harm Dudayev, Imayev himself, and their high-ranking accomplices in Moscow.

Everything was going seemingly well. But at a certain stage people from other structures, over which Savostyanov did not have any influence, showed an interest in Imayev. These people suggested that Imayev should tell of the true scale of criminal activities in Chechnya, the drug business, illegal arms trading, and money laundering. Finally, he was urged to provide testimony against Moscow partners in the criminal business of Chechen mafiosi. And just when Imayev was about agreed to "spill it out," on 28 November he was hastily returned to Groznyy via Minvody. Unofficially, it was said that he was allegedly exchanged for the opposition's I. Suleymenov, held hostage by Dudayev.

Next, events began to develop with the speed of a kaleidoscope. As early as 2 December, Rear Admiral G. Zakharov's special unit conducted a raid on the Most-Group offices. Following that, courtesy of A. Korzhakov and M. Barsukov, Ye. Savostyanov was relieved of all his duties and sacked from the FSK. Gusinskiy felt compelled to escape to London. On 11 December federal troops entered Chechnya.

The "analysts" were in disarray. The most they could do was to launch another hysteria in the mass media under their control and send assistance to M. Udugov (the head of Dudayev's propaganda department, previously convicted of scams)—a brigade of "human rights activities," headed by the notorious S. Kovalev.

However, the real opportunity to deal a mortal blow to the Moscow group was not utilized at the time, which became clear after the meeting of the RF Security Council in the beginning of January of this year. Subsequent steps—as, for instance, the sacking of the chief of the Moscow GUVD [city administration of internal affairs], V. Pankratov, after the murder of the showman V. Listyev—no longer could alter the general trend. The "analysts" managed to regroup, launch their own counter-game, and extricate themselves from the dangerous situation, albeit not without difficulty. The result of all these events: The loss of confidence in Moscow on the part of Chess Player and Scorpio (chief of the Cali cartel's security service). A second result was alienation of the Chechens. In the middle of January, after the horrible bloodshed in Groznyy, the aforementioned Imayev and Abubakarov were summoned from Moscow to Chechnya. A meeting with them, held in the Russia Hotel, was attended by these particular counteragents, who arrived from abroad, and a Lithuanian from the MVD—Romasis' man. It was decided that all drug operations from now on would be conducted bypassing the territory of Chechnya, predominantly through Lithuania. Gudermes group members Said and Sultan, however, did keep their place in the drug business, since they controlled DGB agents and its criminal- commercial structures on the territory of the CIS, the Baltics, and abroad, in particular, in Austria and Germany. As to Imayev and Abubakarov, they were told that their services were no longer needed and they should resort to

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their own devices. Soon, human rights activists headed by Kovalev were recalled from Chechnya.

In these circumstances, Imayev did not have any choice other than to go begging to Chernomyrdin, who met with him and Abubakarov in his office in the House of Government in Moscow. As soon as he struck a friendship with the Russian prime minister, however, Imayev immediately made several mistakes. First, he began to feverishly and no very smartly transfer money between accounts, which resulted in a scandal and an arrest in England in the middle of May. Although in reality the scandal was not so much in England as here—over there, for political reasons, it was all pretty much hushed up. Another flap was to begin slugging it out with the Albakovs, who played the key role in the Chechen oil industry after Dudayev eliminated in 1993 the Benoy criminal clan structure headed by Ya. Mamodayev and B. Gantemirov. The Albakovs had extremely close ties to the Russian oil circles, especially in the area of smuggling operations and laundering criminal petrodollars. Naturally, they did not want to let this pushy Imayev onto their turf.

Then another set of persuasive "arguments" was used against the Albakovs. First, a certain Rimantas, a criminal businessman whom the Albakovs used to launder some of their income and transfer it abroad, was killed in the center of Vilnius by a directed explosion of a bomb planted in a foreign-made car. In order to eliminate any doubt as to the purpose of the deed, the killing took place at the time when his wife Fatima, a relative of Dudayev, was in the car next to Rimantas. Fatima herself was not hurt—a murder of a Chechen woman could cause a blood vendetta, which Imayev at first wanted to avoid. However, the Albakovs did not get the message. Then a decision was made to eliminate one of them—Shirvani, which was done in the Bamur area in the middle of June. Interestingly, several hours before the murder Imayev had a very interesting telephone conversation with Chernomyrdin, during which far more than the situation in Budennovsk was discussed...

All in all, it should be noted that not only Imayev but many other "bosses" find an attentive and sharp interlocutor in the Russian prime minister. For instance, in February of this year Chernomyrdin received a certain Haris Silajdzic, the Bosnian prime minister and at the same time head of the Muslim criminal group engaged arms smuggling, drug trafficking, and embezzlement of international humanitarian aid. No less colorful is another "business partner," known in the international drug and oil circles under the nickname of Big Harry. In the 1980's this man was a CIA representative in Peshavar (Pakistan), responsible for delivery of arms to the dushman gangs of Masud, Rabbani, and Sayaf. Along the way, Harry, together with Khamid Gyul, the then-chief of Pakistani intelligence, took an active part in the drug business, which made him fabulously rich. After his retirement, Big Harry did not abandon his drug business, however, but at the same time got into the oil business. His favorite baby in this respect is the so-called Caspian oil contract. Having initially made inroads in Baku with the help of Iskender Gamidov, the "Gray Wolf" of Turkish special services, he soon switched to a more promising Ilham Gaydar-Ogly Aliyev (G. Aliyev's closest relative and deputy chairman of the Azerbaijan State Oil Company), a lover of the African safari. Friendship with Ilham, by the way, explains the fact that Harry was able to bring into Baku a large number of CIA personnel, who established there the most formidable station of this American espionage agency on the entire CIS territory.

As rumor holds it, Harry's link to Chernomyrdin is their joint efforts to ensure LUKoil participation in the oil contract, which was aided in Moscow by powerful lobbying against those Russian structures that strive to prevent the plundering of the Caspian riches by Western monopolies. Lately, however, there was apparently a certain chill in the relations between Big Harry and Chernomyrdin: Rumor holds it that they disagreed regarding the route of the future pipeline. Harry, nevertheless, was able to find new friends in Moscow. In particular, Moscow currently is exerting serious pressure on E. Shevardnadze to remove Igor Georgadze from the job of the republic's security service chief: He and his father, Georgian Communist leader General Panteleymon Georgadze, are seen by Big Harry as an obstacle to implementing a Georgian-Turkish option of the pipeline route. Besides, Igor interferes with the transit of drugs through Ajaria.

It should be noted that in addition to purely criminal and political score-settling, there is also a number of objective reasons why the Moscow group's position has weakened, in particular: The upcoming increase of custom duties for imported food; the exodus of money from Moscow; the collapse of most pyramid-type economic structures, behind most of which, with the exception of MMM AO [joint-stock society], in reality were the largest Moscow banks, the crisis of opportunities making extra profit on handling the state budget money, as well as the departure of main lobbyists from the power structures. The "Luzhkovites" (Mosstroybank, the Moscow Interregional Bank, the Moscow Industrial Bank, the Lefortovskiy and Gagarinskiy commercial banks) begin to drift toward moderate patriots altogether and are actively flirting with the Cossacks (through S. Dontsov, the mayoralty's chief of legal department). The Moscow government's main con-

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tractor currently is the Aeroflot-Bank, for which preferential operational conditions are being actively created in Moscow. This bank stays out of big politics, limiting itself to financial support of the mayoralty. (Generally speaking, after certain events Luzhkov, as one can see from his current actions, apparently came to a conclusion that it would be prudent for him not to take his activities outside Moscow politics for the foreseeable future of the next one or two years). The Moscow "democrats" (Alpha-Bank, the Russian National Commercial Bank, Most- Bank, Guta-Bank, and some others) are gradually leaning toward supporting G. Yavlinskiy in the elections; however, a strategic decision has not yet been made. Lately, unsuccessful attempts were made to create a Luzhkov-Yavlinskiy-Lebed combination. In this respect, of certain interest is another part of the aforementioned conversation between Shah, Zhenya, and Denisych. Evaluating potential candidates in the upcoming presidential elections, Zhenya skeptically appraised the chances of "Yurik, who is weak outside Moscow. Grisha (that is, Yavlinskiy) will not make it either—too much of an intellectual. We could try Aleksandr Ivanovich (Lebed). He is unpredictable, though. But why not try?" Also interestingly, according to confidential information from the State Duma, which we have at our disposal, not a single large- or even medium-size financial structure has expressed a desire to finance Ye. Gaydar. Menatep, which lately increasingly shuns any participation in political battles, has toned down its activism.

A pro-Korzhakov group came on the scene lately and is quickly gaining weight. Its core is comprised of medium-size banks, tied to security organs first and foremost through personal relations and concentrating their activities in several specific areas: conversion, the defense industry, precious metals and jewelry. This group began to form as early as the end of 1993; however, Chernomyrdin noted the threat back then and cut them off from handling the state budget money (as a result of which these banks had only two sources of income—enforcement structures' deposits and interbank credit). An unprecedented growth of opportunities began during the end of 1994, when they got access to financing some of the sectors in the state economy, as well as preferential access to the redistribution on the remainders of the state share in enterprises. We can count in this category MAPO-Bank, the First Russian Bank, Promradtekhbank, and among the major ones—RF Promstroybank (whose management began to flirt with Korzhakov and Ilyushin as early as in 1993). In the course of the election campaign at any level, these banks will be acting extremely cautiously and support moderately patriotic candidates, but only those who are loyal to Yeltsin (they will not finance Yu. Skokov's Congress of Russian Communities [KRO], A. Rutskoy, or V. Zhirinovskiy). In the current circumstances, their candidates will perhaps be supported by the currently-forming "Polevanov group."

The pro-patriotic group in the banking circles is behaving very cautiously. This is due to the fact that unlike in 1991-93, such banks do not possess sufficient untied financial resources needed to play a political role. In this category are the Hermes Center, the Russian National Bank, Industry-Service, Business Russia, Montazhspetsbank, and to a lesser extent Vozrozhdeniye—a Mytishchi commercial bank. It cannot be ruled out, however, that they will partially finance the KRO election campaign and, what is more probable, S. Baburin's Russian All-Peoples Union. It is possible that Tveruniversalbank will provide financial support for communists (it had already done this in the 1993 elections).

There is also a "neutral" group, that is, several banks trying to stay out of active involvement in the political struggle. Such banks are divided into two categories—those who try to be friends with everybody (Credo-Ban, Stolichnyy, Agroprombank, and a score of medium-size banks), and those who try to stay completely depoliticized (the European Trade Bank, Vitta, Orbita, Optimum). The most prominent among the "neutrals" is Credo-Bank—a very independent structure, which has demonstrated an exceptional flexibility in working with political organizations. According to credible sources, there is not a single patriotic structure Credo- Bank does not finance. Its main counteragent for a long time had been the Russian National Assembly; however, this organization's position has weakened considerably of late. In the second half of 1994 there were attempts at rapprochement with Chernomyrdin (with whom business relations existed before then as well, through the bank's Groznyy branch, headed by a certain Kadyrov—the Albakov brothers' man—and through which payments were made for oil refining and transportation over the territory of Chechnya). However, Credo- Bank had never been subjected to any administrative pressure for its political connections. Interestingly, today Credo-Bank's president pursues a very specific policy: Without dropping its ties with patriotically-minded organizations (financing some Cossack organizations through Credo-Bank), he is trying to establish contact with the "Korzhakov group." During the "banking rebellion" against the rules for setting aside the reserves for foreign currency purchases, the bank's president Yu. Agapov, practically the only one among large banks, demonstratively supported the decision and defended Paramonova and Minister of Finance V. Panskov, who is supported by A. Korzhakov personally.

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The second notable representative of the "neutrals" group is Stolichnyy (the Capital City Savings Bank). His head, Aleksandr Smolenskiy (one of the most successful Russian bankers and, in the opinion of an Austrian newspaper, an extremely criminalized personality; Smolenskiy himself disagreed with such appraisal and sued the newspaper), was considered a close friend of Luzhkov and Chernomyrdin. However, as early as in the middle of 1994, when active pressure began mounting on Luzhkov and Gusinskiy, he quickly distanced himself from them, and later also reduced the intensity of his ties with Chernomyrdin. Currently, Smolenskiy's contacts with "Korzhakovites" (with whom in the past he had very strained relations, up to the point of the latter organizing publications in the press against him) have been noted, as well as, despite his Jewish origins, with some market-oriented patriots.

Overall, commenting on the situation that has emerged in the Russian financial-economic sphere, it may be characterized this way: Criminalization of politics and the economy is proceeding full speed. The country practically has turned into a state run by the mafia. In these circumstances, attempts again are being made to finish off what remains of the enforcement structures. There are deliberate attempts to denigrate the armed forces by taking away from them the Chechen war victory, gained at the cost of great casualties. At the "negotiations" between Chernomyrdin and the gangster Imayev, a foundation is being laid for the withdrawal Russian troops from Chechnya and the restoration of Dudayev's criminal regime. All of this is taking place with the tacit approval of the president, despite the fact that it was he, and not the enforcement structures, which only carried out the order, who was the initiator of the Chechen campaign and bears full personal responsibility for it. The only thing that currently keeps the military from disobedience, after its experience in Chechnya, is the hope for a peaceful change of authority through democratic elections. And God help us if the elections get falsified or canceled! In any case, and this should be abundantly clear, all "characters" are well known. And it would be best for them not to exacerbate their guilt before the country and the people. Sooner or later, they will have to answer anyway.

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Political Issues

Fedorov Hails the Working Man

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[Interview with Svyatoslav Fedorov, well-known scientist, physician, entrepreneur, and politician, by Sergey Sokolkin; place and date not given: "'Respect the Workers!'"]

[FBIS Translated Text]

[Sokolkin] Svyatoslav Nikolayevich, how should Russia live, in your opinion, in what form: as a mononational state or as an empire uniting republics and peoples? What suits you most?

[Fedorov] I believe that we have lost an enormous chunk of economic space, plunging many people—in those republics—into poverty. Their local national elite is not in a position to fend for them and feed them. They do not have a sufficient quantity of raw material, there are no communications, and, most important, there are not enough scientists, technologists, engineers. And they are having a dreadful life, for the most part. These peoples acquired freedom, it might have appeared, but only their elite gained independence. Those who were in power previously also and who have now, generally, obtained everything. I once said to Gorbachev that if we give property to the workers, employees, scientists, we will in practice preserve the country because economic space is incredibly advantageous to those who produce something. It is to their advantage that there be no borders, that they can carry raw material without any customs duty, that they can acquire cotton in Uzbekistan, weave the materials in Ivanovo, collect fruit in Georgia and give in return our Russian machinery there, and so forth. The most out-and-out hocus-pocus has been perpetrated in the economic respect, therefore. The country's collapse was needed only for the preservation of the power of the national upper strata, in Russia included. They were relieved of the need to work, think, establish connections, and so forth. We have lost on all this billions and have made the state indigent. Any wealthy market country could, having assembled 10-15 bankers, purchase all Russia's institutions of power, including our president together with his security. Billions would be paid out, and the command simply given: Give the gas of Sakhalin-2 to America, Tyumen oil, to Britain, and so forth. We are already ceasing to be a state, having lost such a quantity of goods, connections, sources of raw material. We have lost a system. A most stupid step was taken. All countries of the world are uniting....

[Sokolkin] You speak about the economic space. How would you evaluate this from the standpoints of morals, historical continuity, political expediency?

[Fedorov] It has become far worse. Whereas in Uzbekistan there were at least some indications of democracy, now there is a totalitarian regime there, as, for that matter, in almost all the former republics, where the executive, aping Russia, is also in practice becoming semi-dictatorial. Elections are being canceled, authority is being extended, parliaments are being dissolved, the opposition is being hounded, people are disappearing.... A friend told me that if in Uzbekistan someone blathers something against the government, he disappears overnight. He was there, now he's gone. How could I view this?! We have acquired a plutocracy.

[Sokolkin] Svyatoslav Fedorov is not a poor man. Your creation is working, there is no time for complaining and whining. Nonetheless, do you feel nostalgic for the USSR?

[Fedorov] Of course! I have splendid students in Kyrgyzstan, in Uzbekistan, and many other places besides. And today they cannot come to me. They do not know the new techniques since they have lost all communications with Russia, and they do not have their own science. I cannot today go to vacation in Abkhazia, which I adore, particularly the Pitsunda area. To find such an area of coastline as in Abkhazia I have to go to Italy. And others?

I was born in Ukraine and I adore it, I love the Ukrainian people. We are brothers. The difference in language is ridiculous, we have been divided artificially, as with Belarus. My grandfather was a Belarusian, incidentally. So I am one-fourth Ukrainian and one-fourth Belarusian, and only one-half Russian. I am a Slav, and I have been torn into parts! One arm is tugged here, the other, there....

[Sokolkin] Belarus is now attempting to integrate in the economic space of Russia, but indignant voices have immediately been heard from various sides: Why do we need these brothers who have squandered their fortunes!...

[Fedorov] I sent my thoughts to Lukashenka, he has not responded as yet. I wrote that were the Belarusians today to give the means of production to their workers and employees and give them a motivation to intensive labor, their country, even without integrating, would start to overtake us. And if there are economic relations (and this means energy resources), it will begin to prosper altogether. For there are both smart, good people and good plants there. It is necessary in some places to undertake conversion, and most importantly (as for

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us also), to create a consumer goods industry. After all, we made group "A" goods, forgetting that there is also group "B," the proportion of which in all countries constitutes 90 percent. But with us it constituted 5-10 percent. Now, therefore, were Belarus or Ukraine to announce the creation of new enterprises which are tax-exempt if only for five years, as is being done throughout the world, these enterprises would grow and subsequently produce revenue for the country. And for Russia to have a consumer goods industry we need to constantly create thousands of such enterprises for a decade. Only then will we reach the level of the structure of the economy if only of Italy, which has a population only of 55 million. To reach the level of Germany with its 80 million population we will need 15 years, America, 20-25 years. But I would only want to be a producer when I knew that for five-seven years I would not be flayed by taxes, and then I could pay back the credit which I would be given at 8-10 percent (not 180 percent, which is simply mental deficiency!). The president of Chuvashia acted simply: He demanded that the banks not take more than 25 percent. And people there are now getting money and investing it in production in order to create the basis of the economy. But with us, only the production of raw material; we are conclusively fleecing our natural environment and exporting oil, gas, and coal. An empire would be good....

[Sokolkin] But what about the arrangement of the state? Some guarantees are needed, after all. We have now signed a treaty with Belarus, and some other Shushkevich suddenly comes along and, having grabbed Russian money, once again takes Belaya Rus away on free sail....

[Fedorov] You are right, it is disadvantageous to unite when we have the current system of authoritarian regimes. Yes, we must unite with the Slavs, but on an economic basis in which people have an intensive interest. That is, we need to emancipate the initiative of both the Belarusian and the Russian producer. I am for unification! It is an old truth: Acting all together, even the boss can be beaten....

[Sokolkin] We have, incidentally, scattered our children just anywhere. Approximately 30 million Russians live outside of Yeltsin's Russia. What about them? Shall we drag them here or leave them there as, say, a bastion for the future cultural expansion of the Russian spirit?

[Fedorov] I believe that normal living conditions should be created for the people who want to come here. This is possible only with an upturn of our economy. We need to do as they do in Germany, where Germans are being received from the whole world. And conditions for normal life are being created for them relatively quickly, and the banks are granting them loans. We have a lot of empty land, after all. Only 16 million persons here live in the whole of Siberia. This is ridiculous for 12 million square kilometers! Like the Sahara Desert. And in the central zone also. You see extinct villages. I go to the village, and there are three toothless old folk and one dog there and, in the summer, country- cottage residents. We have pulled apart our agriculture. We have pulled apart everything in the country! A person must be involved and have adequate encouragement for his labor. See how we have done things here in the clinic, for example. Each person treating a patient has his percentage, the person who attends the patient and the doctor, has his labor participation ration. The junior nurse receives one unit, a worker, three units, the specialists, five to 10 units, and so forth. A unit here today constitutes 300,000 rubles. And it is to everyone's advantage that the clinic work like clockwork. That we have many patients—both the percentage and the labor participation ratio depend on this. And it should be like this everywhere, throughout the country. It should be profitable to produce much and of excellent quality. The simplest thing. Then there will be both a normal life and a normal country.

[Sokolkin] Let us, then, return to the following subject. The Russian Empire lived and developed under the rays of the Orthodox Idea. This messianic idea assembled diverse principalities and created the state and it moved us eastward. The USSR lived by the world communist idea. The present Russia is by the efforts of its woeful leaders living only by the present day—without ideas, without thoughts, betraying its traditional interests and its friends....

[Fedorov] The idea should be as follows: The country is required to ensure for each citizen the opportunity to live free and dignified lives. There should be the idea of economic freedom and political freedom, and pride in the results of one's work should be encouraged.

[Sokolkin] What view do you take of the arrangement of the state here?

[Fedorov] In order to sharply revise the economic laws that exist today we need a presidential republic for a certain time, and when it is accomplishing its tasks, a parliamentary republic will be required. And let all current problems be tackled by a Council of Ministers. Maintaining tsars is very costly. The British are already propping up even Elizabeth II—this pleasure is beyond their means, they say.

Today's court of our president also costs us no less than 15 percent of the country's budget. This is too great a luxury. It may be permitted for a very short space of time. And the president should now drive around, if not

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in a Moskvitch, in a Volga at least. But by no means in a ZIL. He has simply not yet earned it—this is an obvious fact. The president should altogether be like the captain of a ship: thinking of himself last. Giving people and the country more than he receives. It is not all that modest to speak about myself, perhaps, but my leadership in our institute is supported by the fact that I give far more than I receive. And the team understands this. For this reason I am not only a formal but also a real leader. After all, were I to open a private clinic here or overseas, I would receive a thousand times more money and would have a far better life. We need to give. Acquiring an inordinate amount of money, you lose authority. This is why I am now a tributary. I pay tribute, and a substantial amount. Our institute pays R1 billion monthly in the form of taxes.

[Sokolkin] And what is the turnover?

[Fedorov] Turnover is R3.5 billion.

[Sokolkin] We are back to economics.... Your view of the war in Chechnya?

[Fedorov] Negative. I believe that man was made not to kill his neighbor but to help him. We should love and respect one another. And any killing is immoral. I take a negative view of any war. Politicians who have been unable to stop war being unleashed should simply resign. Chechnya should simply not have been armed, for a start.

[Sokolkin] And what do you say about the Dniester region?

[Fedorov] A difficult question.... The question needs to be settled with Moldova. It is, for all that, their territory, in my view. It has been wrested away from us.

[Sokolkin] But for some reason or other it was watered by the blood of our grandfathers and great grandfathers, liberating it now from the Mongols, now from the Turks....

[Fedorov] Formally this is Moldovan territory, what can you do. Suvorov took, in addition, both Naples and the Ionian islands. Let's annex them also. Our blood was spilled there also....

[Sokolkin] It would be no bad thing....

[Fedorov] Come, now, this is folly. Why annex? We have too much land as it is. We need to build it up. We need to capture not territory but people's souls. And capturing souls with automatic weapons is impossible....

[Sokolkin] But the Dniester people have a sincere affection for us and want to live as part of Russia. I have been there and have felt this for myself. As far as the people in the country as a whole and their security in the future are concerned, there are particular criteria here. The United States has gone and declared half the world the zone of its vital interests. We have only to pull out from anywhere, and the Americans enter immediately, and not with spice cakes but with assault weapons, as a rule.

[Fedorov] This is disgraceful. Only bad politicians have such ambitions. A good politician should satisfy the vital needs of his people. When, therefore, a war which has no economic purpose is declared (the Americans will poke their nose in somewhere there), it is absurd. These are illogical wars. They are well described today by the ecologists (take a look at Arthur Koestler's remarkable monograph). Man was created with the aid of retroviruses. Approximately 150,000 years ago he came down with a retrovirus (of the AIDS type), which drastically increased cerebral activity and reconstituted the gray matter and at the same time created colossal aggressiveness and a desire to kill, humiliate one another, capture, and make slaves. And this is leading not only to the destruction of mankind but to the destruction of the natural environment also. And AIDS is a punishment. That is, nature is punishing humanity for its desire to kill, capture, and destroy, for this damned avarice. I want to live the best—I am the best!... Is such a life worth a damn? There is enough of everything in our country, what do we need things of other people for? We are the richest in the world, let us use what we have. Our subterranean resources are valued at $30 trillion. America's, for example, at only $8 trillion, China's, at $6.5 trillion. Japan has nothing. All of Europe, $500 billion, and for us, I repeat, $30 trillion. We need only to work and distribute fairly. Nothing can be done either in the economy or in policy without justice, without ethical standards, without a high culture. And the task facing the nation at this time is to elect a moral leader of the nation, not an administrator like Yavlinskiy and his ilk, who know only how to transfer money. All this is complete crap. Money is secondary. How we want to work, what we want to do, and how we will distribute are what is important. We need to distribute ourselves. Fairly. And to help one another in brotherly fashion. We are currently giving a woman anesthesiologist $9,500 for an operation. She has a torn ligament, her foot is hanging loose, she

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cannot walk. The institute recently allocated a huge sum of money in dollars for the treatment of a female employee dying from a blood disease (the operation was performed in Germany), we paid a further $15,000 for a transplant of three cardiac valves in our accountant from the Petersburg branch, and so forth. Our product is our family, that is. We have a common goal, mutual understanding, friendship. The whole country should have this kind of "team spirit" also. We must help everyone to the best of our abilities. We must not set prices such as make only the monopoly operator rich. Man will be happy only when the country is rich, and, consequently, he himself also. And a country's wealth equals the quantity of labor times the quality of labor divided by the number of loafers.

Our entire industry is composed of brontosauruses sometimes making 0.5 percent and sometimes operating at a loss. We need to change the structure. And this must be done by the people: the workhorses, peasants, engineers themselves. The land is given away at a symbolic price. You obtain a loan from the bank, only a normal loan, not an extortionate one, and you build and work. You produce machinery, socks, saucepans, shirts, and so forth. Today we are buying all this, by which we are feeding Western technology and supplying Western bankers with hundreds of millions of dollars. I recently drove to Smolensk—I encountered trailers one after another (as in wartime) from the West. And all thanks to the uncontrolled sale of raw material, which we are stealing from future generations. These are irreplaceable losses. This is where the problem lies.

[Sokolkin] And the final question. What would the well-known physician and successful entrepreneur Svyatoslav Fedorov like to say to the readers of the thinking newspaper?

[Fedorov] Only honest labor for himself and for his state can secure for a person a decent life and a tranquil old age, and for future generations, simply the possibility of developing and improving—and creating a great state. Only intellect multiplied by industriousness. There is no other way! Neither Lenins nor Gorbachevs nor Clintons—they can do nothing here, this is my opinion. They are all pawns. The individual, the people, is the queen. Private and collective property, when all—together with the government—are partners in the creation of goods and distribute them fairly, is needed. This is what is meant by real democracy—the fairness of the distribution of what has been obtained, not elections of authorities, as we here think. An idiot is elected, he has grabbed everything for himself and is happy. What the hell do I need with this democracy? We need to observe the interests of the working man, not the idler. Then the country will be great.

That's all!

'K.G.B.' Column Notes Yeltsin-Gaydar Meet

954F2870A Moscow ZAVTRA in Russian Jul 95 No 28, p 1

[Article by K.G.B.: "Billboard"]

[FBIS Translated Text] The gang of "home burglars" recently got a new nickname: "Uncle Vitya's cabin." A joke. A group of high-ranking "new Russians" from Chernomyrdin's electoral coalition Uncle Vitya's Cabin arrive at the Vatican. On the eve of the meeting with the Pope, they are briefed at the embassy. Ambassador Kostikov is yelling: "For the last time, I am telling you: not "chief," not "boss," not "godfather"—Pope!"

A new "achievement" of the Chernomyrdin-Chubays criminal government. Over the first four months of this year more than 13,000 incidents of diphtheria were registered, which is 5,000 more than over the same period last year. In the WHO's opinion, by the end of 1995 about 200,000 persons in our country may be infected with this disease! I am curious—will they be able to protect the "popularly elected" Ben from diphtheria?

Chernomyrdin, Chubays, and Gaydar are lustily shrieking about "stabilization." Do you know what "stabilization" at the cemetery is? Of 1.4 million babies born in the country in 1994, only 9 percent were healthy. (In 1987, respectively, 2.5 million and 25 percent.)

But the "new Russians" like the "bosses"! Yaponchik ["Little Jap"] was arrested in America. In Moscow his friend I. Kobzon is doing everything to keep the conviction case of Ivankov (Yaponchik) from becoming public: "The case is closed, and the MVD [Ministry of Internal Affairs] has no right to make it public."

One of the dossiers on Kobzon says: The "singer" is engaged in smuggling drugs, antiques, and jewelry. Launders "dirty" money. Has ties with the Mossad and the CIA.

THE WASHINGTON TIMES writes: The gangs headed by Kobzon include Gusinskiy and Luzhkov....

Moscow Mayor Luzhkov has turned into quite a flaming patriot lately. "His words (patriotic) glide like a swan." Meanwhile, 80 percent of young men in Moscow are in too poor health to be drafted into the military.

Do you know who are the richest people in the United States? Bill Gates and Warren Buffet ($200 billion between the two of them). And the richest people in Russia? Rumor has it they are the former communists Chernomyrdin and Luzhkov. The "new Russian" patriotism: "Ours" are richer than the "Americans."

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Yeltsin recently had a one-on-one meeting with Gaydar. The pudgy Yegor dropped on his knees in front of the "leader," beating his forehead against the marble floor: "Do not ruin my friend Petya Aven. I will do whatever you say." And the problem is that the Alpha financial group (former minister Aven, Rapoport, and so on) seems to be engaged in drug and arms trafficking, and other unbecoming activities. The main point is not even that this is true. The main point is who is covering them up. Chubays, Luzhkov, and Chernomyrdin. But the people know and create their own folklore. For instance: "Do not blame the mirror if your own snout is black."

How is the progress in subversion (that is, stabilization)? Last year the plan was to produce 21 TU-204 planes. In reality, seven were produced. Of them, five have not been paid for. TU-154: planned—40, manufactured—15, eight not paid for. Yak-42: planned— 24, produced—four. Il-114: planned—15, manufactured—two, not paid for. Il-86: planned—three, manufactured—one, not paid for. MI-8 (helicopters): planned—70, manufactured—50, 46 not paid for. KA-32: planned—25, manufactured—12, not one paid for. Remember: "Uncle Vitya's cabin" is only for "new Russians."

Gusinskiy likes Kobzon's soulful songs. Especially this one: "In the garden, in the field, 'cabbage' grows." But we hear that the "cabbage" ($5 million for starters) went to Grisha Yavlinskiy—the BLYa [Yabloko] [Ed: In this order, the initials also stand for "whore"]. The question: What is the connection between Gusinskiy and Gorbachev, considering that Grisha gives head to both?

The former Kazan police patrolman, Hero of Russia Yerin, has been appointed an intelligence officer and is being sent to Poland. Kulikov has become the chief policeman (a counterweight to the army: Internal troops are already equal to ground troops). Yukov—a Chernomyrdin and Volskiy man—has replaced Polezhayeva (a Poltoranin and Korzhakov person) in ROSSIYSKAYA GAZETA.

Govorukhin, after meeting once again with Gorbachev, decided to run from the Stavropol district. For starters, he proposed that the Cossacks take two districts from Chechnya. Naturally, if this idea is implemented, there will be no way to stop a big war in the Caucasus (rearranging the map).

....A joke. Chernomyrdin and a group of "new Russians" arrive in Paris. A fashionable restaurant. Drunk, Ch. falls asleep with his face in a plate of black caviar. A waiter comes over, wanting to help: "Well, how is life?" Ch. raises his head for a moment: "I made it!"—and plops face down in the plate again.

Economic Issues

*Analytical Agency Views Ruble-Dollar Peg

954Q0265A Moscow DELOVOY MIR in Russian 11 Jul 95 p 4

[Article by Inter-Reyt Analytical Agency: "From Now On the Ruble and Dollar Will Be Chasing Each Other Within the Corridor"]

[FBIS Translated Text] Recently we have all started noticing that economic and financial processes are sensitive not only to legislative norms but also to verbal influences on the springs of the market mechanism. The veracity of that observation is substantiated in many ways: let us recall if nothing else the fact that the sharpest fall of the dollar occurred at the moment results of the calculation of the ruble parity rate on the basis of the Austrian standard (1,300 rubles to the dollar) were announced. Seeing that none of the official politicians were objecting to such a daring orientation point, which, at the same time, is connected with the name of Mr. Aleksashenko, a name rather well known in financial circles, the financial community became imbued with the idea that the ruble was still incredibly low, hastening to sell "expensive" dollars, thereby exerting such a powerful effect on the foreign currency market that even the Central Bank became concerned. It was concerned that the public would actively follow a bad example and "beat dollar-swords into ruble-plowshares."

That would not have become a major disaster if the ruble (as planned by the initiators of the drop in the dollar) would have replaced the dollar in accumulations. Practice, however, proved to be more complicated than theory, and something else began taking place. The Ministry of Finance did not have time to create means of accumulation equal in general availability to the dollar, and the result produced by strengthening of the ruble "suddenly" became the conversion of accumulations into a commodity form. In other words, not only were dollars exchanged into rising rubles but the rubles as well were subsequently spent on basic necessities as well as for other purposes. In that manner inflation received a fresh new impetus, while the dry data of the State Committee on Statistics, coming back to us and having promoted an intensification of inflationary anticipation, completed the vicious circle. Then the government decided to once again utilize the magical power of predictions. At first some individual voices were heard: it was predicted that the dollar would stop at the level of 4,200-4,300 rubles to the dollar. Obeying, the dollar exchange rate immediately stopped falling. A crisis began on the market caused by the uncertainty of the financial situation and the changing profitability of the investment of various funds.

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The apotheosis of "verbal regulation" occurred last week, on Wednesday, when the joint declaration by the government and the Central Bank opened up an era of flexibly determined ruble exchange rate: a corridor with the desirable lower step of 4,300 and a maximum possible upper step of 4,900 rubles to the dollar. Detaching ourselves from the political and macroeconomic goals which were pursued by that declaration (they may be evaluated only upon the passage of a certain amount of time), let us note that the immediate effect of the declaration on the market boiled down to the correction of urgent dollar quotes in forward and future trading. At the MFD [unidentified], for instance, as early as on 5 July, PROFI USD [...U.S. dollar?] quotes, calculated for the best offers for forward purchase and sale of foreign currency, for September transactions, dropped 100-200 points, entering the corridor designated by the government. Meanwhile the game prompting an increase, which was taking place on the money markets outside of the exchange, continued. At the start of the week, the dollar exchange rate in interbank "today" and "tomorrow" transactions exceeded MMVB [Moscow Interbank Currency Market] quotes while the highly insignificant turnover on the exchange provoked the dealers to engage in arbitrage operations. Therefore the MMVB turnover on Tuesday still increased while quotes shifted and began approaching interbank quotes. That possibility of playing on the difference in rates (along with introduction of more rigid reserve requirement rules for banks) was what led to the situation where rates of interbank credit, which rose surprisingly high as early as 28 June, remained high throughout the week. "Reversed" figures of credit interest rates were characteristic: for example, the INSTAR rate for one-day, one-week, and two-week MBK [unidentified] on Thursday was correspondingly, 139.32 percent, 100.02 percent, and 87.56 percent per year (ordinary market conditions presuppose that credit rates grow the longer the term). Such a situation with credit rates usually evidences a "local" character of the shortage of ruble funds: but, lasting almost 10 days, it influenced a rise in longer-term MBK and through them, the overall state of the market. The fact, for instance, that GKO [government short-term bond] prices are falling but their market is still incapable of attracting the funds that are presently being used for speculative games on the currency market is cause for concern.

Let us note, however, that all of these "troubles" at present pertain only to the financial market and are sufficiently conditional for the economy, and if the government and the Central Bank should succeed in keeping their promises, the market will, at any rate, then become more predictable. Predictability of the market over a prolonged period of time alters the mentality of its participants and creates favorable premises for the growth of investments.

*Antimonopoly Official Discusses Economic Situation

954Q0252A Moscow DELOVOY MIR in Russian 3-9 Jul 95 No 25, pp 26-27

[Article by Vladimir Kirillov, head of economic analysis team of Antimonopoly Committee: "The End of Recession Or Just a 'Choice of Leeway'?"]

[FBIS Translated Text] **The recession in industry last year was the most severe since the period of reform began in 1985. It had been stopped by the end of the year. Therefore, it was a repetition of the situation in 1992 at the start of the radical market reform. The future state of the economy is of considerable interest: Will it move gradually, by fits and starts, toward complete collapse, or is the worst already behind us, and has the process of recovery begun? Today, in the atmosphere of all of the discussions of stabilization, these are particularly relevant questions.**

The answers depend on an understanding of the causes of recession and on the date used to mark the beginning of reform.

Theory with Exceptions. Elimination of Price Controls and Reduction of Demand

If we use the date the present government cites as the start of market reform—2 January 1992, when the liberalization of prices reduced domestic demand—we might be forced to arrive at the same conclusion as the government: The disparity liberalization created between the effective demand of the population and enterprises on one side and the supply of goods on the other was the main factor contributing to the reduced output of consumer and investment goods and the reduction of the gross domestic product for the three years. This is usually corroborated by the marked growth of the disparity between the extractive and processing sectors of industry. The most severe slump was recorded in the branches producing investment goods (machine building) and consumer goods (light industry), and the least serious slump was recorded in the raw material branches. These patterns of recession have been blamed on changes in the proportional significance of the domestic and foreign markets because raw materials are produced for export, while the domestic market handles the same raw materials plus the uncompetitive products of the processing industry. Since the pre-reform years the domestic market has been reduced by 65 percent,

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and sales in foreign markets have decreased by 35 percent. Because the possibility of selling investment and consumer goods in foreign markets is extremely limited, the reduction of the domestic market was what led to the corresponding changes in output. The relatively favorable changes in the raw material sector also occurred because the reduction of exports was mainly due to lower sales of the finished products once sent to the CEMA countries and the near abroad. During this period the proportion accounted for by raw materials in total exports continued to grow. As a result, fuel and energy products represented almost 50 percent of total exports in 1994, and ferrous and nonferrous metals represented 20 percent.

There is one exception to this balanced theory. This exception cannot be ignored because it is so significant that it puts the theory itself in question. This is the output of electric power. The slump here has been minimal, despite the fact that we export virtually no electricity, and that industry, its main domestic consumer, has reduced production by approximately 50 percent. The attempt to explain with the statement that electricity secures the vital needs of the population will not stand up to criticism if we consider the almost 50-percent slump in the food industry. The demand for these products is even less elastic by virtue of the same vital needs. In turn, the recession in the food industry is also inexplicable from the standpoint of demand. According to the findings of a recent joint study of competition in branches of the agroindustrial complex by the State Antimonopoly Committee and the Ministry of Agriculture and Food, the explanation of the reduced domestic market for domestic food products on the national scale as a result of fierce competition by imports can only be given serious consideration with regard to the butter market (imports represented around one-fourth of all sales in this market in 1994).

The Monopoly. It Is Still Alive!

There was internal potential for recession in addition to the external, demand-related restrictions. As a result of the liberalization of prices, the dynamics of the recession of the preceding period were compounded by **a recession caused by the monopolized structure of our economy.** Although our economy does not differ from market economies with a comparable level of development in terms of the concentration of the production of the main types of goods, the terms of sale—i.e., the state of the market for these products—are quite different. Most of our markets are localized. Furthermore, as proportional shipping costs in the total price structure rise, the level of localization also rises, and so does the level of monopolization. Instead of a single national market, served by sellers who may have been few in number but were still competing entities (more in terms of potential than of actual status), we now see a multitude of local markets with one seller in each. This is clear from the substantial geographic differences in prices. Even in the market for electric power and electric capacities, and despite the existence of a unique unified power engineering network, the Ministry of Fuel and Energy has found that prices in one region may be 10 times as high as in another. That is why the majority of goods are used in the location of their production. The goods with enough market value to make the move from one local market to another encounter invisible barriers erected by sectorial monopolies or by the government or even the president on their behalf. When the oil companies were established by Presidential Edict No 1403 of 17 November 1992, for example, and when this edict and government decrees were subsequently amplified, each of these companies gained full control of oblast petroleum product enterprises, which signified the legal division of the oil and petroleum product market while the level of concentration in oil drilling and refining was quite low.

Besides this, the division of markets (mainly markets for similar products) seems to be adhering to traditions maintained by the underdevelopment of the market infrastructure (the lack of roads, the shortage of warehouses and storage facilities for fuel and lubricants, etc.) under the influence of local administrations prohibiting the transport of goods outside their regions (70 percent of the 12,000 cases antimonopoly agencies investigated in 1994 were connected with the illegal actions of local administrations) and by means of the coordination of the market behavior of enterprises. Although sectorial monopolies were officially eliminated along with the sectorial ministries, they actually still exist. The coordination of the actions of various enterprises producing similar goods is accomplished through the associations that took the place of the old sectorial ministries, such as Rosneft, Rosugol, Chermet, and Spetsmet, for example, and directly through bilateral contacts at regularly scheduled sectorial conferences. In an atmosphere of recession, the interaction tends to be even stronger because of the belief that an enterprise acting alone cannot survive. Antimonopoly agencies and the judicial system are already too weak to oppose these coordinated actions effectively. This is clear from the virtually complete absence of statistics on the institution of criminal proceedings for violations of the corresponding article of the Law "On Competition and the Restriction of Monopolistic Behavior in Commodity Markets," while the number of cases of cartel agreements investigated by various agencies of the antimonopoly control network during the

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year in countries with developed market economies runs into the thousands. The extent of these violations, and in law-abiding countries with stricter legislation providing for administrative and criminal penalties (up to three years in prison in the United States and up to six years in Brazil), attests to the high level of risk and, consequently, of profit in this area.

Enterprises producing different goods are usually monopolists by virtue of the earlier policy of narrow specialization. **In many cases this monopolism has been intensified by the severance of cooperative ties as a result of the privatization of subdivisions of single technological complexes.**

Production Cuts as a Source of Profit

After the liberalization of prices, when enterprises were confronted by prices exceeding all of their expectations on the necessary factors of production, which were not counterbalanced by a corresponding rise in demand, they began to revise their plans and reduce production volume. The result was the reduction of supply. It was at this time that they learned that cuts in production exceeding the rise in costs would not only minimize their losses, but could also generate a profit. This possibility is open to the market structure known as a pure (non-discriminatory) monopoly. When a pure monopoly is not bound by the kind of price controls that are supposed to simulate competition in a monopolized market, it has to cut production by approximately half to earn maximum profits. Linear demand creates a precise balance, because in this case the curve representing the maximum income of the pure monopoly, dictating its production volume, is twice as steep as the demand curve, dictating the output of competing branches and, consequently, of the monopoly in question. As a rule, the optimal production volume is found through trial and error, which can be a lengthy process. In our economy this took two and a half years, during which a specific limit was essentially set in the mechanism of recession due to the obsolescence of industrial equipment.

If an expansionist monetary policy is conducted to compensate for rising costs, the original balance of production volumes in competitive branches and the branches of the regulated monopolies is restored. The reduction of output is approximately 50 percent in branches with pure unregulated monopolies, including those in which enterprises are bound by cartel agreements and branches dominated by a single monopolist. This reduction is of a structural nature and cannot be eliminated by the simple expansion of demand. Any attempt to accomplish this will escalate inflation, although the cartels usually break up over the long range, followed by the slow restoration of the homogeneous production volume and the relative prices of these goods. The pure unregulated monopoly can minimize losses when the total supply of money in circulation is reduced, and this makes it extremely stable in this situation.

The Regulated Monopoly

This pattern of development in our economy, including development in the last three years, is confirmed by the approximately 50-percent reduction of output in unregulated branches during that time and by the much less severe slump in branches of the fuel and energy complex, which have been regulated since the time of the liberalization of prices and which include, incidentally, electrical power engineering. The atmosphere of recession in September 1992 was due not only to the growth of the total amount of money in circulation after Viktor Gerashchenko took charge of Gosbank, but also the temporary (1992-1993) price controls on the products of monopolistic enterprises that were instituted on 1 September. This regulation extended to the majority of enterprises producing consumer goods, including enterprises in the food industry and light industry, to enterprises in the building materials industry and other processing branches listed in regional sections of the directory of monopolistic enterprises and associations, and to the monopolistic enterprises of basic and processing branches listed in the federal section of that directory. The latter include such well-known enterprises as AvtoVAZ and Rostselmash, each of which had a production volume equivalent to 66 percent of the total Russian output—i.e., by law, they were the only economic entities occupying a dominant position in the corresponding domestic market. The institution of price controls and their elimination had little effect on the declining real prices of the VAZ models of passenger cars and on the real profits and production volume of AvtoVAZ, which was encountering fierce competition in the domestic market, primarily from imports. According to the State Committee for Statistics, 48 percent of the passenger cars in the Russian market in 1993 were imports, but the figure in 1994 was only 20 percent. When the total amount of money in circulation was reduced in spring 1993, AvtoVAZ, as an entity in a competitive market, reacted by cutting its real prices in half and by reducing output slightly. The regulation of the operations of Rostselmash, which did occupy a dominant position in the market for grain combines in Russia and the CIS, effectively held down the real price of combines until October 1993, while decreasing demand reduced the output (and, consequently, the total profits) of Rostselmash. During the quarter preceding the official elimination of price controls, Rostselmash could not survive and had to take action to bypass regulation. In this process, and this is particularly interesting, Rostselmash

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completely reproduced the pattern described above for the emergence of the whole Russian economy from the price controls: The same 50-percent cuts in production areas that were unprofitable for a pure monopoly, accompanied by a rise in the real price of the product and in real profits and, as a result, the same problems with demand—when prices in branches with a pure monopoly became high monopoly prices after the elimination of state regulation and approached the level of world prices, domestic products ceased to be in demand, because it became more convenient to buy goods of better quality abroad. **Lowering the barrier to the market is the fee the monopolist has to pay for high monopoly prices.** In the case of Rostselmash the situation was complicated less by purchases of imports than by the more active leasing of agricultural equipment from abroad, and the firms in this field of business (mainly in Krasnodar Kray, but their sphere of operations extends all the way to Orenburg) sign contracts with agricultural producers for a whole agricultural season—from sowing to harvest—with payment in kind (usually one-third of the harvest), which is profitable when losses are minimal.

The inadequate effectiveness of this attempt at regulation is connected with the ability of regulated enterprises to find various ways of surmounting barriers (mainly by creating their own commercial structures "outside the confines of the directory" and selling monopoly products through them at free prices) and with the extremely ineffective method chosen for the regulation—the restriction of maximum profits. Enterprises subject to this kind of regulation have to "magnify" production costs instead of reducing them, and this escalates the inflation of costs and the related symptoms of recession. Furthermore, the method of regulation described in the instructions issued by the State Committee for Prices and the Ministry of Finance on 12 October 1992 stipulated that a tax would be levied on profits in excess of the standard profit margin, defining it not as the ratio of profits to expenditures in the product price, but calculating the quarterly cumulative result since the beginning of the year (since 1 September in 1992) as the ratio of total profits to total expenditures. The profit margin calculated on the basis of results for the end of 1992 and the first quarter of 1993 had some economic validity under the conditions of the galloping inflation of late 1992 and all of 1993. In subsequent quarters of 1993 the profit margin calculated in this manner was lower than the profit margin based on the results for each quarter, which allowed monopolistic enterprises to raise their prices by reducing output, without suffering any losses due to the absence of demand-related restrictions on their products. Because the total amount of money in circulation was decreasing during this period in 1993 and there were consequently demand-related restrictions on prices in many cases, the actual profit margin was frequently lower than the maximum, and price controls were thereby eliminated, and this also allowed the pure monopoly to make cuts in unprofitable areas of production. In spite of these obvious errors in the first experiment with regulation, there is no question that the dynamics of recession changed fundamentally as soon as the price controls were instituted, and precisely in branches that had not been regulated up to that time. This facilitated the virtually complete restoration of the pre-reform structure of our industry at that time.

Many people have trouble believing that the regulation of a limited number of monopolistic enterprises (2-3 percent of all the enterprises in the federal section of the directory, with products representing 5-7 percent of total output, and approximately the same figures in each of the regional sections of the directory) could have produced this effect, but they are disregarding the fact that the monopolistic enterprises do not exist in a vacuum, but are part of a system of technological ties, creating so-called "bottlenecks" in them, and are capable of causing resource-related restrictions throughout the system (analogous to the well-known effect in physics). The fact that these "bottlenecks" control our technologically interrelated economy is confirmed by the rapid reduction of the load of production capacities in industry after 31 December 1993, when this period of regulation was ended by another liberalization of prices, in spite of all of the abovementioned errors in the regulation process—but representing only 5-7 percent of all industrial output this time instead of the three-quarters of output at the beginning of 1992. Furthermore, the degree of the decline was virtually the same in both cases (a factor of approximately 1.3). Here is a typical example of a "bottleneck": A private firm in Chekhov acquired most of the components for the headlights for Zhiguli vehicles, and then AvtoVAZ had to sell this firm its incomplete headlight assemblies at a discount equivalent to one-third of the wholesale price to keep its own production from being halted. The processing of agricultural products is a "bottleneck" affecting our whole economy. Agricultural processing has been localized by a group of monopolists on the regional level. Furthermore, the monopoly is the only seller in the consumer market for agricultural products and the only buyer in the producer market. If declining demand (due to competition from imports or actions by the local administration to control consumer prices) hurts our agricultural processing sector in the consumer market, it compensates for these losses in the producer market by setting lower purchase prices. After agricultural processing began operating as a pure unrelated monopoly fully in line with the theory, it reduced production volume by approximately half without

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suffering any losses in profits or wages. The effects of this on agricultural producers operating in a competitive market are apparent from a private Christmas letter from Antonina Vasilenko, the economist of a former kolkhoz which is now a joint-stock company in Shukavka in Voronezh Oblast, to her sister, a housewife, written at the very end of December 1994. It is valuable because it is essentially a classic description of the depressed state of the branch: "Our kolkhoz is gradually falling into ruin. Not because the people have stopped working, because we are still doing the same amount of sowing and plowing, but no one has wanted our products for two years now: Our grain is still in the elevator, and the wool was stored wherever possible, but most of it is ruined by now. We have to sell our milk for 200 rubles a liter, and the dairy plant never pays us even this amount on schedule. There is no money. The accounts are full of unpaid debts, already amounting to almost a billion. We have no fuel. We could barter sugar for it, but this year Kovalev (the local administration chief) took 50 percent of our sugar for the oblast supply. We are not buying any fertilizer or vehicles or spare parts. That is how we live. We are accomplishing the rebirth of Russia...the pre-revolutionary Russia, in which we will all be riding on horseback again." The effects of all this on the producers of agricultural equipment can be judged from the example of ZIL and the previously mentioned Rostselmash (although it, as a monopolist, had a hand in creating this situation), and if we keep moving along the technological chains we can reach every sector of the economy. The situation is particularly tragic because our agricultural processing sector is a monopolist on the regional scale. All of these regional meat combines, flour mills, dairy plants, oil mills, and others cannot stand up to any kind of serious competition from monopolists on the international level, representing the modern processing industry (like the "Chicago wars"), and will have to "give up." By doing this, they will crush the producers of agricultural products and then, moving along the technological chains, destroy close to half of our economy. **That is why imports of agricultural products for the creation of a competitive environment in this branch, with the aim of forcing domestic agricultural processing to increase sectorial output, should be strictly limited.** The desperate attempts of agricultural producers to enlarge the "bottleneck" by establishing their own processing and sales infrastructure through the construction of small enterprises and shops (around 300 of these have been built just in Krasnodar Kray during the years of reform) will lead to the loss of the impact generated by the scales of production and, consequently, the competitiveness of products. The inefficient method of privatization, as a result of which the controlling block of stock in agricultural processing enterprises is owned by labor collectives, gives agricultural producers no chance to influence the price policy of processing enterprises. Sugar production is one exception to this rule. Here the producers of sugar beets with the ability to store sugar on their own premises resort to tolling, and on the basis of customer-supplied raw materials, with the terms approved in advance, giving them the ability to establish a bipartite monopoly to compensate to some degree (depending on the strength of each party) for the losses resulting from the monopoly position of processors. The same kind of situation is taking shape in vegetable oil production.

New Round. Equilibrium of Unregulated Economy

The end of the slump in the middle of 1994 was of a completely different nature—the structure of industry was still unwieldy—and, in line with this pattern, had an absolutely different cause: **The potential for recession connected with the monopolized structure of the economy had been completely exhausted.** Of course, we would have to assume that branches which have been regulated up to the present time would not be free to operate as a pure monopoly. This possibility, however, became much stronger after the issuance of presidential edicts No 220 and No 221 of 28 February 1995, according to which government price controls will remain in effect only for the products of natural monopolies, including the monopolies on the production and transport of electrical and thermal power in the fuel and energy complex. The question of lifting price controls on the other products of the fuel and energy complex was left up to the government on the condition that the subsidies required for the continuation of price regulation would be borne in mind during the drafting of the federal budget for the corresponding year. In view of the difficulties connected with the collection of budget income for 1995, we could have safely assumed that government price controls on oil will be lifted in 1995, and this did occur on 7 March 1995. After the oil and petroleum product markets were monopolized by dividing up the single national market among the oil companies, it was highly possible that oil drilling might suffer the same fate as our metallurgy, which experienced a decrease of around 50 percent in output in spite of its excellent export potential. Some people believe that the state price controls on oil and petroleum products prior to 7 March were ineffective because oil producers never did reach their maximum 50-percent profit margin in the domestic market. The actual mechanism of price regulation in this branch, however, consisted in the use of purely administrative means of obligating oil companies to supply consumers with petroleum products in their assigned "service zones." The oil companies were pleased with this arrangement in general from spring to fall 1994,

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which is attested to by LUKoil's announced moratorium on wholesale price increases during that period. The fact is that the oil companies that were operating simultaneously in foreign and domestic markets limited exports to maintain the level of world prices and consequently did not suffer any losses in their main receipts—their foreign currency earnings—while they used the domestic market to conduct a policy of absolute price discrimination, allowing them to earn monopoly profits without cutting production. Because of the cancellation of export licenses and the consequent rise in the number of middlemen, which would undermine the policy of price discrimination, and for other reasons discussed below, the pursuit of this policy might entail difficulties in the next few months and this would force the producers of oil and petroleum products to operate as a pure monopoly and would consequently lead to a 50-percent decrease in output in these branches and raise retail prices in the domestic market to 65 dollars for a tonne of oil and 550-600 dollars for a tonne of petroleum products. According to Yuriy Uglov, deputy chairman of the board of the "Norsi" joint-stock company, oil companies already want to charge 300,000 rubles for a tonne of oil, although the average cost of a tonne is 170,000-180,000 rubles. The doubling of oil prices during the first four months of this year was also discussed at the last meeting of the government commission on non-payments on 3 May 1995. Apparently, the government did not dare to lift the price controls on gas because 97 percent of this output is controlled by Gazprom, although the situation in the gas market could make this less painful than it would be in the oil and petroleum product market. The fact is that a bipartite monopoly now exists in the gas market. Gazprom has to sell 50 percent of its domestic output at wholesale prices to Rosgazifikatsiya, which then sells this gas to direct consumers in most parts of the country. The double monopoly simulates conditions in the competitive market to some extent (depending on the comparative strength of the two sides) and thereby eliminates the pure monopoly's incentive to cut production by 50 percent. A situation similar to the one in the gas industry (more sellers than buyers) could develop in the single wholesale market for electricity that is being established at this time. In principle, this would mean that government price controls would not be necessary in this branch either. The elimination of subsidies in the coal industry is opposed by the miners. Therefore, **we can expect the economy to finally reach a new state of equilibrium, controlled by the pure unregulated monopoly, after the implementation of the latest presidential edicts.** This transition in itself would not be a move to the phase of depression in the customary economic cycle. If, however, it accompanies the cyclical slump, which usually, judging by world experience in cyclical development, can be measured at 5-15 percent, it could result in an overall slump of 52-58 percent during the phase of depression and hasten the onset of this phase primarily in the competitive branches, as demonstrated by the present state of agriculture and light industry, and in the monopolized branches with competitive branches among the main consumers of their products. Above all, this applies to tractor production, agriculture machine building, the production of trucks for agriculture, the production of mineral fertilizers, and so forth (following the technological chains). **The last to enter the phase of depression will be the "bottlenecks"—i.e., the processing sector.** Essentially representing (for objective reasons) the "initiator and director" of the 50-percent slump throughout the economy, the processing sector has been able to "reap the ultimate benefits" of this process. Signs of this were already apparent in the middle of 1994. According to the Center for the Study of Economic Conditions, the most intense reduction of output during the first four months of this year was recorded in the food industry, which suggests that processing branches might be entering the phase of depression as well. Furthermore, the crisis promises to be more severe in this sector. The fact is that the processing sector is being pressured from both sides: by the producers of raw materials on one side in their attempt to bypass the "bottlenecks" (literally by installing a bypass pipeline, as Permneft is doing in the hope of reducing its dependence on Permnefteorgsintez, which, according to Permneft Economic Director Yuriy Skovorodin—NEFT I KAPITAL, No 1, 1995, p 62—did whatever it wanted with Permneft for half a year, including the reduction of processing volume from 4 million tonnes to 3 million), limiting shipments of raw materials to traditional processors and thereby raising their overhead costs; and by competition from imports on the other side now that these imports have increased dramatically after sectorial prices reached the same level as world prices, and this is reducing the sales market. According to the same Yuriy Uglov, oil refineries have this choice: They can either raise the refining level from 45-48 percent to 75-78 percent in the next three years or leave the market altogether. Recovery probably will also begin first in these branches, which should be facilitated by the monopoly superprofits they earned (and kept in foreign currency accounts) during the interval between the liberalization of prices and the onset of the phase of depression.

On the other hand, by continuing price regulation in the extractive branches, we would perpetuate the existing structure of prices, in which the domestic prices of the products of unregulated monopolized branches have approached or even surpassed the world level, while the prices in regulated branches, particularly oil drilling, have not risen above 30 percent of the world level.

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This would create a constant non-monetary source of inflation, because the extractive branches would always have an incentive to follow the example of the processing sector and climb to the level of world prices in the domestic market. This source would have a particularly intense effect as soon as the amount of money in circulation in the economy would exceed the amount required to secure accumulation and investment processes. For this reason, unless we eliminate this source, we cannot even begin to modernize industry and thereby stop the cyclical slump in the economy (which was, in fact, the reason that all of this happened 10 years ago). Furthermore, by modernizing industry we will allow it to operate in the competitive world market and thereby solve its monopoly problems. In other words, we will eliminate the 50-percent "leeway."

***Bankers Discuss Competition, Other Problems of Sector**

954E1163E Moscow KOMMERSANT-DAILY in Russian 24 Jun 95 p 6

[Unattributed article: "Experts Do Not Always Agree with Theorists"]

[FBIS Translated Text] **The "second financial stabilization," which began this spring, gives us reason to wonder how changes in market conditions will affect the operations of Russian commercial banks. In connection with this, KOMMERSANT asked its regular contributing author—Mikhail Delyagin, acting chief of the Economic Office of the RF president's Analytical Administration—to comment on possible changes in bank policy. We decided to make the same request of experienced bankers. They agreed with the theorist in many cases, but they also disagreed in some. The result was a unique correspondence dialogue, which we want to bring to the attention of our readers. KOMMERSANT occasionally joined the "discussion."**

Mikhail Delyagin: The slump in production is expected to slow down considerably this year. According to some estimates, the rate of decline will be 4-6 percent in 1995 (21 percent in 1994). This lower rate and the reduction of inflation are seen by several researchers as evidence of the onset of stabilization or depression. For the banks, this period will signify the lack of free money and a corresponding drop in the yield of the main financial instruments, exceeding the decline in the rate of inflation in some cases. The collapse of speculative markets will be the prevailing tendency in this phase. Of course, new high-profit markets will occasionally emerge for brief periods, but none will manage to maintain the high level of profits for long.

Competition will be more fierce, and banks will have to improve the quality of their services considerably and improve the system of intra-bank organization of labor. The competition by banks for state money will be replaced to some extent by competition for commercial clients, and this will depend on high-quality performance rather than close personal ties.

Andrey Nechayev (Russian Finance Corporation): There is a fight for clients, but it frequently does not depend on the quality of services. Personal ties and "special favors" can be of decisive value.

Mikhail Delyagin: New threats will emerge, including the problem of non-liquid collateral (which was fatal for the "Baltiya" Bank, for example, and seriously jeopardized the Russian Agroprombank—KOMMERSANT). This could lead to serious changes in the list of the top Russian banks in the near future.

Dmitriy Lyubinin ("Rossiyskiy Kredit" Bank): I cannot agree completely with this prediction. On the contrary, the number of reliable borrowers is comparatively high, because private enterprises are able to dispose of their own property. Two or three years ago there was nothing we could accept as collateral. In my opinion, the notorious case of the "Erlan" trading house was only made possible by the banks' absolutely incompetent analysis of the borrower's financial status.

Mikhail Delyagin: The process of surmounting the crisis will be more difficult for the Russian banks because of their close ties to government agencies. The hope of government support could prolong the death throes of the inefficient system of management in some banks.

KOMMERSANT: We have to agree with this, but it would be better to distinguish between two aspects of the banks' interaction with government agencies. There is one group of banks (most of them were once part of the specialized banking network) serving large numbers of industrial enterprises working for the state. The policy of financial stabilization presupposes the curtailment of state investment and the reduction of state expenditures in general, as a result of which these enterprises will not get the same amount of budget resources or will get these resources only after long delays. For this reason, they frequently will be unable to keep up with scheduled payments on loans from their banks, and this will have a serious effect on the status of the latter. The difficulties the Interregional Bank is experiencing today because the budget owes its clients more than 200 billion rubles are a classic example of this kind of crisis. That is why this kind of semi-governmental clientele has grown less appealing to banks.

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On the other hand, Russian banks are still eager to gain the title of "authorized banks" in the hope of handling the funds of federal or local budgets or extra-budgetary funds. It would seem that any self-respecting state agency already has its own authorized banks. The list of authorized banks of the Federal Bankruptcy Administration, for example, has displayed rapid growth recently and now includes around 35 banks. This is also true of the list of authorized banks of the Ministry of Finance for Chechnya, which already includes, according to the latest data, 18 banks. The account of any solid agency is also desirable—the account of the State Customs Committee, the current and deposit accounts of the Ministry of Finance ("Rossiyskiy Kredit"), and others. In short, banks are still eager to handle state funds.

Mikhail Delyagin: Stabilization made the terms of banking operations less comfortable and will speed up their differentiation in all respects. Stabilization can be compared to the Ice Age, which ruined the living conditions of primitive man and accelerated his evolution dramatically. The superiority of the position of large Russian banks under these conditions is indisputable. The main strategic areas of bank development are, in our opinion, operations in foreign markets and comprehensive banking services.

Foreign trade operations are still more lucrative, and the comparatively stable financial status of foreign trade clients reduces the risk for banks considerably. It is not surprising that the most dynamic group of Russian banks—the ONEKSIMbank/MFK group—specifically chose to serve foreign trade.

Andrey Nechayev: The declining exchange rate of the dollar will jeopardize even these operations. Banks concentrating on export branches are in a difficult position, and so are their clients. Many domestic prices are rising to the level of world prices, and the effectiveness of foreign trade operations can only be maintained by devaluating the ruble.

Mikhail Delyagin: Another lucrative field is the attraction of relatively cheap foreign credit and its subsequent distribution in Russia, which is accessible to large Russian banks capable of demonstrating their reliability to foreign creditors.

Aleksey Obozintsev (Tokobank): Unfortunately, these operations are not that simple either. Do you remember the problems we had with our plan to attract large investments by issuing certificates of deposit for distribution in the international market? We encountered the problem of the double taxation of income and the absurdity of the procedure to prevent this double taxation. These certificates, which are highly liquid, may be used by the investor for only a brief period, but our tax inspectors are demanding that the investor register here and submit proof of registration with authorized agencies in his own country and proof of the payment of taxes there, as well as another mountain of documents on the state of his business affairs. How idiotic would someone have to be to agree to do all of this?

Mikhail Delyagin: Servicing issues of Russian securities in international stock markets is a promising field. Today the MFK and "Rossiyskiy Kredit" have the best positions in this field because they are members of one of the two international stock trading networks.

We can expect the stabilization of the domestic economy to reduce the appeal of domestic markets considerably, because the heightened reliability of operations in these markets will only compensate for part of their diminished yield. This is strengthening the appeal of operations in world markets and is dividing our banks into international institutions, which will be able to do this (even if only as "junior partners"), and national institutions, with most of their operations confined to Russian financial markets. This division has already started, and the "price" of turning a national bank into an international one will rise constantly.

KOMMERSANT: We can cite a brief list of cases to prove that Russian banks are striving to enter international markets. In addition to the previously mentioned banks, the MFK and "Rossiyskiy Kredit," which joined the CEDEL network, the International Industrial Bank also plans to begin operations with foreign securities (in August-September 1995). Following the example of Inkombank (with a branch in Cyprus) and the Capital Savings Bank (with an affiliate in Holland), ONEKSIMbank applied for a permit to establish an affiliate structure "in the far abroad" and will be opening an affiliate bank in Switzerland—Banque UNEXIM (Suisse). Inkombank has set up a finance company in Switzerland (Inkom Finance Group), and "Rossiyskiy Kredit" has established one of these companies in Great Britain (RK Securities). About 10 months ago Mosbiznesbank set up a finance company, Hermes Capital Management, in New York (United States). This company then established two investment funds, which are now managing, according to some reports, 100 million dollars in capital. Russian banks are not ignoring the CIS countries either: "Rossiyskiy Kredit" is opening an affiliate bank in Turkmenistan and plans to open offices in other countries of the CIS, and Alfa-Bank plans to do this in Kazakhstan.

Mikhail Delyagin: Another inevitable area of development for the largest banks is the need to offer comprehensive services, including the establishment of financial-industrial groups.

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KOMMERSANT: There are already so many examples of this—the "Interros"financial-industrial group (ONEKSIMbank/MFK), the Volga-Kamsk financial-industrial group (AvtoVAZbank/Kaminbank), and the holding companies of "Menatep," Inkombank, and "Rossiyskiy Kredit."

Besides this, foreign currency, ruble, and other operations have been combined in a single complex in several banks (Unikombank, the Mytishchinskiy Commercial Bank, and others). This is already the second wave. Leading banks (Inkombank, for example) made these changes earlier.

Mikhail Delyagin: Under the conditions of financial stabilization, even the most successful segment of the Russian banking community will encounter serious difficulties. Obviously, the situation will be even worse for small and medium banks. From one-half to two-thirds of these are not even deemed viable by analysts, and many of them (also more than half, according to estimates) are controlled by criminal gangs. Only a few will be able to find their own niche in the market. This could be facilitated by the offer of a simple group of operations to small clients of no interest to the giant banks or by specialization in certain operations, including non-banking operations (primarily in the stock market).

The best of the remaining banks will survive by becoming branches, affiliates, or agencies of the country's largest banks. The demand for these banks, however, is not that great, and competition will be fierce in this area as well (we should recall how Mosbiznesbank decided to open a branch in Novosibirsk Oblast last year and could choose among more than 10 local banks vying for this status). Many small and medium-sized banks in the country will go under. This will be a gradual process, and the "Central Bank can take action to prevent a domino effect."

KOMMERSANT: Summing up the results of this discussion, we can say that bankers were slightly more pessimistic about the possible effects of financial stabilization on the banks. Some of their skeptical comments are cited above. In conclusion, we will cite two more important statements, which we feel are characteristic of the banks' assessment of the current situation. **Boris Sergeyev (Tokobank): "Trade is less lucrative now that the rate of inflation is low, but the return on operations in industry has not risen yet." Andrey Nechayev:** "We should pay attention to American ideas about the development of banks, but they presuppose an aggressive investment policy, and our banks do not enough experience in the management of investments and the analysis of investment projects."

As far as the direct effects of stabilization on the operations of commercial banks are concerned, it is still too early to discuss any serious changes. The main practical results of stabilization, after all, should be longer terms of crediting and the possibility of using bank credit to finance long-term investments. In this respect, the example of Unikombank is indicative. Yuriy Gurov, its director of asset and liability management and planning, had this to say: "Because the bank is operating in an atmosphere of heightened risk, it conducts a balanced credit policy, giving preference to bank clients, and confines most of its investments to short-term ventures."

*Property Committee Allegedly Violated Privatization Laws

954E1163D Moscow KOMMERSANT-DAILY in Russian 24 Jun 95 p 21

[Unattributed article: "Procurators Are Maintaining the Defense Establishment"]

[FBIS Translated Text] **During a review of the operations of the RF State Property Committee (GKI), the Procuracy General concluded that this agency has failed to perform its functions as the administrator of state property in the last three years. According to procurators, it has concentrated solely on privatization, even in the case of property which cannot be turned over to the private sector by law. There are ports and strategic enterprises, for example, for which the committee plans to issue stock in all or part of the property. Meanwhile, the administrators of state enterprises are selling property to commercial agents for a song. In several letters addressed to Viktor Chernomyrdin, the procuracy demanded that the GKI officials responsible for numerous violations of the law in the privatization sphere be penalized.**

Strategic Property Is Being Returned to the State

The Procuracy General sent its first official memo to Viktor Chernomyrdin on the activities of the GKI more than two years ago. At that time it notified the premier of the government that the GKI was privatizing special facilities excluded from sale by the State Privatization Program. The GKI frequently sympathized with the collectives of defense enterprises when they complained about unemployment (the lack of state orders) and the lack of money for the payment of their wages and allowed them to buy stock in the enterprises. In this process, the GKI judged the convertibility of an enterprise "by the facts of the case": If it had no defense orders, this meant it could be privatized. The procuracy, on the other hand, felt that the GKI had to be guided by the charter objectives of the enterprise. If its charter

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stated that it would produce space equipment, any kind of privatization would be out of the question.

The Procuracy General returned some of the privatized enterprises in the defense industry to the state. In each case it began by informing Chubays that it was protesting the decision to issue stock in an enterprise. After each of these protests was ignored, it would petition the courts. One result of this was the rescission of the decision to privatize the Russian Scientific Research Institute of Space Instrument Building, which had developed battle management systems for military spacecraft. The court also agreed with the procuracy that the Spetstekhosnastka Plant in Volgograd, which produced space equipment, had been privatized illegally. The privatization of some subdivisions of the High Energy Physics Institute and the State Scientific Research Institute of Aviation Systems was also stopped with the procuracy's help.

All of these cases were reported to Chernomyrdin. He forwarded the procuracy's memo to the chairman of the GKI, noting in an attached resolution that "the incidents related here are not isolated cases and are of a systematic nature." This was not followed, however, by any sanctions against GKI officials. In his response to Chernomyrdin, Chubays said that the Procuracy General was biased against his agency. Chubays cited the procurators' objections to the privatization of a subdivision of the Scientific Research Institute of Aviation Systems as an example. In his opinion, this privatization was absolutely legal, because this subdivision did not work on defense orders. Chubays also felt that the Superior Arbitration Court had been wrong in taking the procuracy's side.

Meanwhile, a new procurator-general had taken office. In November 1993 it was Aleksey Kazannik that was demanding that the GKI officials be penalized. This is how he responded to Chubays' explanation: "The GKI is not only trying to denigrate the procuracy's actions, but is also trying to infringe on the independence of the courts and to influence arbitration practices by extrajudicial means." Not one of the GKI's appeals of judicial rulings in these cases succeeded, but it still refused to acknowledge the complaints of the Procuracy General, feeling that the margin of error in its work was no higher than the average.

Directors and Military Commanders Are Selling State Property

In 1994 the protests against illegal actions by the GKI were already being filed by acting Procurator General Aleksey Ilyushenko. He also wrote to Viktor Chernomyrdin to inform him that Anatoliy Chubays' agency had been extremely remiss in the administration of state property. It had failed to prevent illegal transfers of federal property to the private business sector "for the sake of immediate and dubious advantages for the enterprises." In letters to the government the procuracy cited cases of these "transfers," which were illegal by virtue of the very fact that the state property was not being sold in competitive bidding sessions or at auction. Here are some of them:

1) A building in the center of Moscow (Ulitsa Zhitnaya, No 14) was sold illegally to the "Rosneftegazstroy" joint-stock company, established by the former union ministry, with the knowledge of the GKI;

2) Administrators of the "Biomash" Scientific-Production Association in Moscow established the "Apromed" joint-stock company and transferred an incomplete building project of the association to the joint-stock company as part of its authorized capital. Later they headed this company. The GKI gave the joint-stock company title to this building instead of taking measures to reclaim the state property;

3) The administration of the Omsk Electrical Equipment Plant sold its computer center to the "Omsk-ASKO" joint-stock insurance company for 4.4 million rubles. The center's property was appraised arbitrarily;

4) The director of the "Signal" plant of the Ministry of Atomic Energy sold buildings and installations to EKAbank for 266 million rubles in 1992 prices;

5) The "Energomash" Scientific-Production Association transferred five occupied residential buildings to the "ZhUK" private firm;

6) The director of the Moscow Experimental Plant of the Scientific Research Institute of Automation Equipment and Instrument Building decided to sell a two-room apartment belonging to the plant for 100,000 rubles to an administrator of a branch of the Moscow Industrial Bank;

7) The administration of the "Tekhnomash" Scientific-Production Association and its experimental plant contributed unique equipment worth 1.22 billion rubles in 1991 prices to the authorized capital of numerous commercial structures. Besides this, the general director of the association turned the association's subsidiary farm over to the "GEO AST" commercial structure. As a result of an exclusive stock subscription held in violation of the law, the former general director of the experimental plant of "Tekhnomash" became the owner of 30 percent of the stock in the "Eksperiment" joint-stock company, established on the basis of this plant. The collective of the plant was denied its right to acquire the controlling block of stock;

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8) The director of the experimental plant of the Scientific Research Institute of Automation Equipment and Instrument Building contributed almost 3,000 square meters of production facilities to the authorized capital of the "Mosmed" joint venture;

9) The administration of the Moscow Scientific Research Institute of Radio Engineering withdrew funds from its account and used them as share payments to several commercial structures, particularly 50 million rubles to LLD-Bank;

10) The general director of the State Space Scientific-Production Center imeni Khrunichev illegally leased more than a thousand square meters of production area to the "Mikrodin" firm (according to an RF presidential edict, only the GKI is authorized to lease federal property, which is what this enterprise is).

Reporting that all of the transactions had been ruled illegal by the courts, the procuracy again urged Chernomyrdin to prosecute the GKI officials. Chubays responded with an offer of closer contact.

We have to acknowledge that the GKI rescinded some of its own illegal decisions without waiting for a judicial ruling. It rescinded, for example, the authorization to sell the base of the military engineering units of the Ministry of Atomic Energy in Obninsk to the "Tsentralnyy" supermarket. This base, which consisted of administration buildings, warehouses, a refrigeration facility, and other property, was sold to the store by military unit Commander Karpyuk for 200 million rubles. Karpyuk used the instructions of the deputy minister of atomic energy as a guide, because they permitted the sale of available military property according to a simpler procedure than the one envisaged in the corresponding presidential edict. The edict stipulated that military property could be sold only by the Ministry of Defense through specially authorized state enterprises, usually in exchanges and at auction. According to the instructions, however, the sale did not require the permission of the Ministry of Defense. After the Procuracy General intervened, the instructions, the transaction itself, and the GKI's authorization of the transaction were all rescinded. The procuracy's demand that GKI officials be penalized for the illegal actions was not satisfied, however.

Belyayev Learned the Truth About His Agency

As soon as Sergey Belyayev took office as chairman of the GKI, the procuracy sent him a request for the elimination of violations of the law in GKI operations. This was probably the first analysis of the results of all of this committee's activity in the last three years. According to the procuracy, the GKI had evaded the conscientious performance of the functions of administering state property. The GKI did not have complete and accurate information about the amounts and locations of state property transferred to commercial structures. There was no system for the oversight of its use.

The situation was particularly disturbing with regard to property abroad. After GKI staffers reported the amounts of this property to procurators, they refused to confirm the accuracy of these data during inspections. The figures, however, were clearly incongruous. The GKI's report that the value of real estate on the balance sheets of overseas establishments of the Ministry of Foreign Economic Relations, Ministry of Foreign Affairs, RIA-NOVOSTI, and others was 4 million dollars was questionable, for example. The number of buildings in distant foreign countries was reported to be 29,522. If the value of each is estimated at a minimum of 40,000 dollars, the procurators argued, the total value would be 295 million dollars, and not 4 million.

The procuracy informed Sergey Belyayev that violations of the law during the privatization of enterprises had become the norm long ago. The GKI has its own interpretation of some provisions of the State Privatization Program and privatizes whole branches in line with this interpretation. The letter to Belyayev said that the misinterpretation of the rules of the privatization of port facilities had "virtually deprived the state of its sea ports" (only 20 percent of the stock was reserved as state property). According to the procuracy, "this forced the RF Government to launch the effective de-privatization of port facilities in 1994."

Besides this, the committee frequently uses other administrative methods to tie up the stock in an enterprise. The GKI issued several sets of orders, for example, obliging enterprises of maritime, air, and river transport to reserve 25.5 percent of their stock for transfer to the authorized capital of ship repair and aircraft repair enterprises. The Procuracy General's challenge of these decisions was rejected. Evidently, it will have to take the GKI to court in this case as well.

Polevanov Published the Procuracy's Reports

The GKI believes that the procuracy is stirring up emotions and cannot look beyond "pure jurisprudence" to see the effects of legal decisions on human beings—the members of the collectives slated for privatization. The procuracy is not denying that it is guided only by the letter of the law. That is what makes it a procuracy. It has little interest in how the parties will be affected by the court's decision to rescind a privatization transaction that took place three years ago, in which vouchers were the means of payment. It is only interested in the implementation of this decision.

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The GKI personnel, however, are sincerely puzzled by the suit and cannot understand why the procuracy is objecting to a transaction that occurred so long ago and, what is most important, was acceptable to all of the parties concerned.

In the interest of fairness, we have to admit that the courts sometimes take the side of the GKI in its disputes with the procuracy. The procuracy's suit for the rescission of the decision to privatize the "Luch" experimental plant (processing radioactive materials), for example, was rejected by the Superior Arbitration Court. The longer ago the privatization transaction took place, the less likely the judges are to sympathize with the "pure jurisprudence" of the procuracy.

Here is an interesting detail: Former GKI Chairman Vladimir Polevanov, who was dismissed from the RF presidential staff for divulging compromising information about privatization, obtained some of this information from the protest notices the Procuracy General had sent to the GKI. Polevanov did not have time to satisfy the procuracy's request to penalize GKI officials for illegal privatization practices. Now it will have to ask Sergey Belyayev to do this.

***Decree, Schedule for Paying Enterprise Profit Tax**

***Decree Confirming Schedule**

954E1187A Moscow ROSSIYSKAYA GAZETA in Russian 14 Jul 95 p 4

[Decree of the Government of the Russian Federation signed in Moscow by V. Chernomyrdin, Chairman of the Government of the Russian Federation, on 1 July 1995, No 660: "On the Procedure for Settlements With the Federal Budget and the Budgets of the Subjects of the Russian Federation With Respect to the Profit Tax of Enterprises and Organizations Whose Structures Include Territorially Isolated Subdivisions Not Having a Separate Balance Sheet and Settlement (Current, Correspondent) Account"]

[FBIS Translated Text] In accordance with the Russian Federation Law "On the Tax on the Profit of Enterprises and Organizations" (JOURNAL OF THE CONGRESS OF PEOPLES' DEPUTIES OF THE RUSSIAN FEDERATION AND THE SUPREME SOVIET OF THE RUSSIAN FEDERATION, No 11, 1992, item 525) the Government of the Russian Federation decrees that:

1. The proposed procedure for settlements with the federal budget and the budgets of the subjects of the Russian Federation with respect to the tax on the profit of enterprises and organizations which include territorially isolated structural subdivisions not having a separate balance sheet and settlement (current, correspondent) account is approved and is made effective as of 1 January 1995.

2. Together with the Ministry of Finance of the Russian Federation, the State Tax Service of the Russian Federation is to issue instructions in a month's time concerning settlements with the federal budget and the budgets of the subjects of the Russian Federation with respect to the profit tax in accordance with the procedure approved by the present decree.

***Text of Schedule**

954E1187B Moscow ROSSIYSKAYA GAZETA in Russian 14 Jul 95 p 10

[Text of the procedure approved by Russian Federation Government Decree No 660 signed in Moscow by V. Chernomyrdin, Chairman of the Russian Government: "The Settlement of Structural Subdivisions With the Budget"]

[FBIS Translated Text] **Procedure for settlements with the federal budget and the budgets of the subjects of the Russian Federation with respect to the profit of enterprises and organizations which include territorially isolated structural subdivisions not having a separate balance sheet and settlement (current, correspondent) account.**

1. The share of the profit which is due to territorially isolated structural subdivisions not having a separate balance sheet and settlement (current, correspondent) account (hereinafter called structural subdivisions) of enterprises and organizations, including organizations with foreign investments and credit and insurance organizations (hereinafter called organizations) and on which a tax is computed that is subject to entry into the revenue portion of the budgets of the subjects of the Russian Federation at the location of the indicated structural subdivisions is to be determined based on the average size of the relative share of the average listed number of employees (wage fund) and the relative share of the value of the fixed production capital of these structural subdivisions correspondingly in the average listed number of employees (wage fund) and value of fixed production capital for the organization as a whole. In so doing the organizations are to independently determine which of the indicators—average listed number of employees or wage fund—is to be used. The indicator chosen by the organization must be constant throughout the report year. Determination of the average size of the relative share for computation of advance or actual amounts of the profit tax for organizations (minus the structural subdivisions) and for their structural subdivisions is to be made based correspondingly on the proposed and actual indicators of the average listed number of employ-

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ees (wage fund) and the value of the fixed production capital of these organizations and their structural subdivisions.

Computation of the profit tax separately for organizations (minus the structural subdivisions) and for the structural subdivisions is to be done in accordance with the profit tax rates in effect in the territories where these organizations and their structural subdivisions are located.

Not later than five days after the establishment by the legislative (representative) organs of the subject of the Russian Federation of the profit tax rate being entered into the budget of this subject, the financial organs of the subject of the Russian Federation where the structural subdivision of an organization is located are to report about its rate to the organizations formulating profit tax settlements and to the tax organ where the indicated organization is located.

2. The present procedure for computing and paying profit tax to the budgets of the subjects of the Russian Federation is to be used in the determination of advance tax payments beginning with the third quarter of 1995 and of the amounts of the tax on actually obtained profit beginning with the settlements for the first six months of 1995.

3. Distribution of the amount of the excess of actual outlays for employee wages over their normed amount among organizations (minus the structural subdivisions) and their structural subdivisions, as well as computation of the tax from this excess being entered in the budgets of the subjects of the Russian Federation, is to be done in a manner analogous to the procedure for calculating the profit tax.

4. Determination of the difference between the amount of the profit tax subject to payment to the budget based on actual profit and the advance payments of the tax during the preceding quarter, adjusted for the discount rate of the Central Bank of the Russian Federation for the use of bank credit, is to be made separately for the organizations (minus the structural subdivisions) and for their structural subdivisions.

5. Computation and payment to the federal budget of the profit tax and of the tax from the amounts of the excess of actual wage outlays over their normed amount is to be done by the organizations where they are located without distribution of the amounts of the taxes by structural subdivisions.

6. Responsibility for the completeness of the transfer to the budgets of the subjects of the Russian Federation of the taxes envisaged by the present procedure that are due from the structural subdivisions is to be borne by the organizations of which these structural subdivisions are a part.

7. The tax organs at the location of the organizations of which the structural subdivisions are part are to monitor the correctness of the computation of the taxes and the timeliness of their transfer to the budgets of the subjects of the Russian Federation.

*'White Book' on Foreign Investor Problems Planned

954F2869A Moscow SEGODNYA in Russian 15 Jul 95 p 3

[Article by Olga Romanova: "Lunatics Invest No More Than 2 Dollars in Russia: Foreigners Summarize the Causes of the Poor Investment Climate"]

[FBIS Translated Text] The "White Book" on problems of foreign investors will be submitted to the government and Constitutional Council on Foreign Investments in the fall. For this purpose, the Russian Center for Promoting Foreign Investments under the Ministry of Economics intends to "go through, from beginning to end, the entire chain" of domestic bureaucracy, including the regional bureaucracy, with several foreign companies and identify the most flagrant features of the uncomfortable existence of foreign investors in Russia.

The director of the center, Sergey Tsakunov, reported on this yesterday at a press conference entitled "Is Russia Ready To Accept Foreign Investments?: A Foreign Investor's View." In order to "reinforce Russia's image as a country which accepts investments, the Constitutional Council together with the Center for Promoting Foreign Investments is opening a network of investment bureaus in Frankfurt, Milan, London, Chicago, and New York. The Center will present investors' problems to the government. One of the Center's main functions is to provide state monitoring of foreign investors.

In Mr. Tsakunov's opinion, "at least 20 years will pass before our conditions approach international standards," but if "you wait until Western conditions are created in Russia," Tsakunov warned investors, "you will lose out to competitors."

Incidentally, investors and potential users of investments are trying to meet each other halfway. This appears, among other things, in the form of regional initiatives to create preferential conditions for foreign investors in those regions.

Carl Johanson (managing partner of Ernst & Young [text in English]), Peter Smith (general director of Procter & Gamble [text in English]), and Peter Sharo (general director of the American Chamber of Commerce in Russia) laid out foreign investors' views.

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Foreigners are most disturbed by the imperfections of Russian legislation and the judicial system, the lack of a link between taxation and the government's economic policy, the problems of certification, standardization, and licensing (their failure to comply with international parameters and the high cost of licensing services), the lack of protection for intellectual property, and the omnipresent corruption. Thus, practically all aspects of Russian life are not conducive to investments, although even so "the potential opportunities are greater than the problems," according to Mr. Johanson.

A special group from the Procter & Gamble Company revealed that almost all the difficulties are linked in one way or another to taxation. They include the value-added tax on internal company loans, the value-added tax on capital expenditures, and the tax on the amount by which the labor payment fund is exceeded, as well as the Russian bookkeeping and account system. The principles of taxation which have become established in Russia—collecting taxes not from profits but from income and turnover, where "the tax organs cannot determine where taxes should be paid, who has to pay them, and how much" (especially in the regions)—are completely illogical to the foreign investor.

Incidentally, this week the new instruction of RF Gosnalogsluzhba [State Tax Service] on taxation of foreign legal persons went into effect; it envisions a requirement that they give notice of their sources of income, as well as the mandatory procedure for opening accounts in Russian banks in order to transfer taxes to the budget and a new mechanism for calculating profits. Nonetheless, the draft law on changing the tax system adopted in the third reading on Wednesday envisions abolishing the normative effect of such instructions, allowing them to retain the function of methodological materials.

"The problems are gradually beginning to be resolved," declared Peter Sharo. The director of the American Chamber of Commerce is especially pleased with the State Duma's adoption of the first part of the Civil Code and the law on the division of output. "We are impatiently awaiting new legislation in the area of taxation of enterprises."

Nonetheless, Russia's problems are having a disastrous effect on potential investors. As one of the participants in the meeting expressed it, "Taking into account what was said here, only a lunatic will invest 2 dollars or so in Russia." (Incidentally, if that sum is compared with the volume of investments in Russia by that same Procter & Gamble, the opposite conclusion can be drawn—only a lunatic does not invest in Russia.)

*Chamber of Commerce Plan To Protect Domestic Market

954E1163B Moscow KOMMERSANT-DAILY in Russian 24 Jun 95 p 2

[Article by Aleksandr Volynets and Kirill Romanov: "The Chamber of Commerce and Industry Wants To Be the Defender of the Russian Market"]

[FBIS Translated Text] **Although the chambers of commerce in most countries are cautious in their approach to the protection of the domestic market and try to balance the interests of national producers and trade companies, the Russian Chamber of Commerce and Industry has taken a definite stance on the issue of protectionism. The "Plan of Basic Measures by the Russian Federation Chamber of Commerce and Industry in Defense of the Russian Domestic Market" was approved at yesterday's meeting of the board. The heads of the chamber have put their faith in an advisory council they set up to draft proposals for all branches of government connected with protectionist efforts. Judging by the tone of the statements of board members, the Chamber of Commerce and Industry is again on the crest of the new wave in economic policy by virtue of its ability to make use of the potential of anti-import sentiments.**

How the Domestic Market Is Protected Abroad

The tendency toward the use of measures to protect domestic producers on a broader scale has been accompanied by changes in their structure. Protective measures have always been used to guard the domestic market against imports deemed undesirable for various reasons.

The protective mechanism almost always presupposes a certain combination of economic and administrative measures. The **economic measures** are taken through the pricing mechanism and leave buyers free to choose among competing goods—imported and domestic. Above all, these measures include the customs tariff, which exists in all countries and covers all imports, other types of duties, taxes, and fees (customs and domestic), import deposits, and special import or compensatory taxes and fees.

The **administrative measures** include the issuance of regulatory documents to restrict foreign trade operations with specific groups of countries and commodities in the national interest. These measures affect the structure of the domestic market without involving the buyer. Administrative measures include the prohibition of certain types of imports, quantitative limits on the import or export of certain goods, the institution of licensing systems, the establishment of "voluntary"

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export restrictions, and the use of national standards, certification systems, and quality inspections. All of these measures are taken by official agencies and by the government itself. The interests of businessmen are represented by unions of producers, exporters and importers, and their combined lobbying efforts are responsible for all changes in foreign economic policy.

International experience indicates that economic measures have been the traditional means of protecting the domestic market. It is indicative that GATT assigns preference to economic protective measures, but it does permit the use of administrative measures in some cases. It is interesting that administrative measures are employed on a much broader scale than the GATT rules allow. This is largely due to the invention of protectionist barriers (primarily to block products from developing countries) sophisticated enough to necessitate the prevention of unfair competition, the defense of consumer rights, and the protection of the environment.

How the Chamber of Commerce and Industry Plans To Protect the Domestic Market

The discussion of the present state of the domestic market and problems connected with its protection at a "roundtable" organized by the Chamber of Commerce and Industry last week aroused so much interest in the business community that it exceeded all of the chamber's expectations. The suspicions of the accessibility of a previously unoccupied niche in economic policymaking were confirmed. Every business organization promoted the interests of national industry as a whole instead of the interests of a single branch or sector of the economy. The fact that the Russian Chamber of Commerce and Industry has close ties to government leaders and the presidential staff and that it also has the right of legislative initiative guarantees that any carefully organized lobbying campaign will have the maximum impact. The integrating role of the Chamber of Commerce and Industry as a coordinator of pressure on the government and parliament for the institution of protectionist measures is also heightened by the absence of any clearly defined political stance on the part of its leadership, allowing it to appeal to representatives of various political forces for the attainment of current objectives.

To this end, the Chamber of Commerce and Industry is setting up an advisory council to draft proposals for the Russian Government on the institution of protective measures. The members of the council are expected to include representatives of regional chambers of commerce and associations of businessmen and producers. The council will begin its work by forming new organizational structures. According to the plan, these will be federal and regional associations of producers and exporters. The next phase of the council's work will entail the drafting of proposals for the government in conjunction with interested organizations for the establishment of protective measures, with consideration for the provisions and procedures stipulated in international agreements. These proposals, according to the plan, are connected with Russia's intention to join GATT. Other proposals for the government will suggest the inclusion of representatives of the Chamber of Commerce and Industry among the members of government commissions on currency and export controls and on customs and tariffs.

The initiative and persistence of the heads of the Chamber of Commerce and Industry cannot be denied, but there is a problem, once pointed out by experts from the Scientific Research Institute of Market Conditions, connected with the chamber's traditional functions of supporting and defending the interests of all business groups and promoting Russian goods in international markets. It is precisely in the area of domestic market protection that the interests of producers and commercial middlemen diverge considerably. This is why the chambers of commerce in the majority of Western countries are only indirectly involved in the planning and institution of protectionist measures, leaving this sphere under the total jurisdiction of administrative bodies. The Association of European Chambers of Commerce and Industry has appointed itself the "watchdog" of the free market by declaring war on protectionism.

Common practice in the West, however, has to be adjusted for the realities of Russian life. The position of any public organization representing the interests of the business community in any country depends on the internal balance of power. At this time it is completely obvious that the voices of structures opposed in principle to import restrictions will be drowned out instantaneously by the choir of advocates of protectionism. In this case the Russian Chamber of Commerce and Industry is simply expressing the opinion of the absolute majority of Russian businessmen, irrespective of its propriety.

***Enterprise Directors' Pessimistic Answers to Poll Analyzed**

954E1163C Moscow FINANSOVYYE IZVESTIYA in Russian 6 Jul 95 p ii

[Article by Aleksandr Batyayev: "One Out of Every Two Directors Expects a Slump in Production and Higher Prices in August"]

[FBIS Translated Text] **Aleksandr Batyayev, from the staff of the "Russian Economic Barometer" bulletin,**

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analyzed the results of a June survey of 170 Russian enterprises in all branches of industry.

Prices

Only 5 percent of the respondents reported a drop in the prices of their products since last month, 34 percent said their prices had not changed, and 61 percent reported price increases.

The prices of products they had to buy were higher in the case of 93 percent of the enterprises, the same for 5 percent, and lower for 3 percent.

The general level of prices for the enterprises in the sample group, their own prices and others, rose by an average of 12 percent in the past month, which was the lowest rate of rise in almost a year. The rates of increase in prices varied widely from branch to branch: The highest rate was in electrical power engineering—21 percent, and the rate of rise in the chemical and petrochemical industry was under 1 percent.

Ratio of Prices to Overhead Costs

Unfavorable shifts in price balances were reported by 44 percent of the respondents, and favorable shifts were reported by 1 percent. In the opinion of the other 55 percent, there was almost no change in the ratio of their own prices to the prices of other goods. The results of the last two surveys indicate some improvement in the situation: More than half of the respondents reported the stability of price ratios. The situation was unfavorable in electrical power engineering, where 60 percent of the enterprise administrators reported undesirable price ratio shifts. Enterprises in other branches were in a better position: From one-half to four-fifths of the respondents believed that price ratios had not changed.

Production

An increase in output since last month was reported by 30 percent of the administrators, 13 percent said that output had stayed the same, and 57 percent reported a decrease.

Direct estimates put the decrease at an average of 7 percent. The recession slowed down in the middle of 1994, but it began to pick up speed again in the last two months. The biggest decrease in output, according to the survey results, was recorded in light industry—16 percent. Workers in the chemical industry and metallurgy not only managed to hold on to their jobs, but also to increase output by 6 percent and 7 percent respectively in comparison with the figures for the previous month.

Investment

Increased purchases of equipment (in real terms) in the past month were reported by only 5 percent of the respondents, while 28 percent said there had been no change in purchasing volume, and 5 percent reported a decrease. The other 63 percent of the enterprises had not purchased any equipment for two months or more.

The overall increase in equipment purchases during the month was around 13 percent. This is the highest indicator in more than a year. In spite of the slight improvement of the situation, only 21 percent of the enterprises in machine building were able to buy equipment last month. The most active were enterprises of the chemical complex, around 75 percent of which continued to buy equipment.

Credit

Stricter terms of bank credit were reported by 16 percent of the administrators, better terms were reported by 3 percent, and the remaining 80 percent had not noticed any change. The proportional number for whom the terms of bank credit were unchanged or were worse than they had been the month before rose from 69 percent in January to 83 percent in May 1995, reaching the highest level in more than half a year. Enterprises of the chemical and petrochemical industry are in sharp contrast to those in other branches: Conditions improved for 20 percent of them, and almost no enterprise reported worse conditions. The stability of credit terms was noted by virtually all enterprises of ferrous and nonferrous metallurgy and the fuel industry. The situation is worst of all in the consumer goods sector.

Orders

The portfolio of orders remained the same for 53 percent of the enterprises, was augmented for 17 percent, and "lost weight" for 30 percent.

Orders from fall 1994 to spring 1995 fluctuated at around 73 percent of normal. The figure in the last survey was the lowest in four months—70 percent. Orders were at their lowest level for enterprises of light industry (49 percent) and the highest level in the food industry (86 percent).

Commodity Stocks

Around 21 percent of the respondents reported an increase in these stocks, the same number reported a decrease, and 43 percent did not notice any change since the previous month.

Stocks of finished products were equivalent to 78 percent of the average level for last month in the whole

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sample group. The relative volume has been decreasing since April 1994 and has been reduced by around one-fourth in that time. In the last six months the indicator has fluctuated at around 80 percent. Maximum stocks were reported in light industry (over 100 percent), and minimum stocks were reported in the chemical industry (29 percent).

Load of Production Capacities

Production facilities were handling less than half of their capacity at 34 percent of the surveyed enterprises, and more than four-fifths of capacity at 23 percent.

The average load of production capacities in the sample group last month was 60 percent. Although this is somewhat lower than in the preceding two or three months, there is some indication that the figure has been rising gradually for the last year.

Financial Status

Only 1 percent of the surveyed administrators described the financial status of their enterprises as excellent. In the opinion of 28 percent it was average, and 71 percent described it as unsatisfactory. The situation in March-April was more favorable than it had been for more than a year, but then the problems returned. Although the situation in the fuel industry is better than in other branches, almost all enterprises in that industry described the state of their finances as unsatisfactory. The administrators of enterprises of the food industry were more optimistic than the others: 52 percent said the situation was normal.

FORECASTS FOR AUGUST

Prices

Around 87 percent of the respondents anticipate a rise in the prices of their products by August 1995 (in comparison with May 1995), 6 percent believe that their prices will not change, and 7 percent predicted lower prices.

The corresponding indicators for the prices of the products they have to buy were 96 percent, 1 percent, and 3 percent.

Production

A decrease in the output of their enterprises is anticipated by 49 percent of the respondents, growth is expected by 33 percent, and the other 18 percent do not foresee any particular changes.

Investment

According to 53 percent of the respondents, their enterprises have not bought any equipment recently and will not be purchasing any in the next three months, 3 percent anticipate the reduction of real purchasing volume, 36 percent expect volume to stay the same, and 8 percent anticipate an increase.

*Report on Corruption in Privatization Process

954Q0259A Moscow SOVETSKAYA ROSSIYA in Russian 13 Jul 95 pp 1,2

[Article by S. Filimonov, candidate of technical sciences: "Theft by Competition—Why the State Controller Did Not Write Prime Minister Chernomyrdin a Working Report on Corruption"]

[FBIS Translated Text] **At the recent meeting in the government concerning the problem of investment in the economy, Prime Minister Chernomyrdin named the scapegoats, those who are to blame for the fact that, despite widely broadcast promises (Vice Premier Chubays was especially outstanding in this), investment in the Russian economy is not only not growing, it is actually decreasing. Goskomstat [RF State Committee on Statistics] figures testify irrefutably to a stable trend toward a gradual slowdown in growth of foreign investment. In the first quarter of 1995, the level of foreign investment was just $229.3 million compared to $383.1 million in the first quarter of last year.**

In one of his interviews, Chernomyrdin ascribed this trend to the scapegoats of the political opposition: "Investment will not get moving right away—even though there is money today—because of characters like this. Glazyev people do not want to invest it in the national economy because we are constantly being made apprehensive with talk of failure, collapse, and disaster."

The manuscript of an expert, a state controller, which we offer for the reader's attention below, illustrates, however, that Chernomyrdin has a biased notion that is very far from the truth concerning the reasons for the decrease in investment in the Russian economy. Perhaps the most eloquent statement is the simple fact that the expert, who initially intended to send a working report to Chernomyrdin on the flagrant cases of corruption, decided against this plan as pointless and instead wrote an article for an independent newspaper.

Most Russian enterprises need investment desperately. To attract it, the idea was proposed to conduct special competitions to sell blocks of shares of privatized enterprises. It is a fairly simple idea: the state's block of shares is sold at a predetermined price (at par), and the purchaser carries out a specific investment program (modernization, introduction of the

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latest technologies, creation of new jobs, and so on) on an outright basis at the enterprise whose stock it purchased. It turned out that the investment competitions have shortcomings too, and the most significant one is that it is hard to exercise control over the purchasers' performance of their investment obligations.

It is difficult because of snowballing corruption especially if the investor enters a conspiracy for the purpose of acquiring the state's block of shares with no intention of investing anything. Control is usually exercised by the seller (property fund) through the appropriate structures. At the RFFI [Russian Fund for Federal Property] these functions were given to the department for control of contract performance, which was headed by the author of these lines.

My experience convinced me that another significant shortcoming of the investment competitions is the lack of clear criteria for determining the volume of investment equivalent to the market price of the block of shares being sold. This opens loopholes for pseudo-investment, especially in those cases where there is just one participant in the competitions (and this is allowed by existing enactments). In practice this often leads to an obvious discrepancy between the volume of investment and the real value of the block of shares (the market price is usually hundreds, and sometimes thousands, of times greater than par value).

As an example we can cite the sale contract at the investment competition for a block of shares in the Optyuvelir [Wholesale Jewelry] AO [Joint-Stock Company], where a 50-percent block of shares was sold for 610 million rubles [R], and the volume of investment according to the investment program was just R950 million. The only participant in the competition (and therefore the winner) was the notorious Alfa-Eko. Unfortunately, many such examples could be given.

How are the terms of the investment competitions in the Russian Federation being carried out for objects in federal ownership? The data base of the control department contained information for the situation on 16 June 1995 for 708 investment competitions with a total volume of planned investment of $3.772 billion (U.S.) and R11.153 trillion (taking inflation into account). The total volume of investment made (based on decisions already adopted to carry out investment obligations) on this same date, however, was not more than 1 one percent of the planned level! Even considering that the audit of performance of investment obligations itself takes a fair amount of time, that information from the regions arrives only after significant delays (or never makes it at all), and that investment programs are frequently adjusted to extend the time periods, etc. the figures obviously are not suitable for victorious communiques!

It should be noted immediately that the purchaser's payment of 20 percent of the total volume of the investment to the issuer's current account (which is a mandatory condition of the competition), even if it is confirmed by documents, is only performance of a mandatory term of the sale contract and not performance of any stage of the investment program because this money must not only be transferred but also expended for the purchase of equipment, reconstruction, and so on. (Fairly often the transfer amounts to nothing more than moving the money from one account to another in the same bank.)

The above information was presented to RFFI chairman V. V. Sokolov on 19 June, but he expressed dissatisfaction, which within a week took the form of a directive abolishing the control department (no department—no problem)!

The reason for the department's abolition was chiefly that the controllers were "uncompromising" and would not count an obvious fake as confirmation of investment. Suffice it to say that as of 30 June 1995, of the 82 sale contracts concluded directly by the RFFI in investment competitions, more than 30, in our opinion, are subject to termination because even to the naked eye it is apparent that the purchaser is not intending to invest anything but is only using the competition as an opportunity to acquire a block of shares cheaply. Incidentally, the control department submitted numerous proposals to the management of the RFFI to tighten requirements made of potential purchasers with respect to ensuring their investment obligations, organizing reporting to the seller, and toughening penalties, which would have greatly reduced the number of people trying to take advantage of this, but all of our proposals were ignored.

The most indicative case (for the absolute confidence of the purchaser that, despite "fake" documents, he would be given credit for performance of the investment program) was the investment competition for sale of a block of shares in the Klimattekhnika [Climate Technology] AO (Moscow) where the purchaser was the Direktorat TOO [Limited Partnership]. This is the same purchaser who back on 28 September 1994 was mentioned in the newspaper BIZNES MN in an article entitled "The RFFI Intends To Go to Arbitration Court," (incidentally, the RFFI is still "intending"), where instead of promised new equipment worth 2.6 million Swiss francs (about $1.7 million), the purchaser "invested" old equipment which had long been standing idle at the issuing enter-

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prise. It would have been possible a year ago to go to arbitration court and have this contract terminated, but instead of this the chairman of the RFFI held a series of "explanatory" meetings so that the control department would, despite available documents, recognize performance of the investment program. The control department did not "listen," and this is $1.7 million of planned investment that was not made.

A second example is the widely known All Russian Automobile Alliance AO [AVVA], which bought a block of shares in AvtoVAZ [Volga Automotive Plant] AO at an investment competition. The total amount of investment was $111 million with a final investment date of December 1995. As far back as October 1994 the author of these lines spoke by telephone for more than 15 minutes with L. R. Valdman, a representative of the purchaser, on the subject of submitting to the RFFI copies of payment documents that would confirm transfer of an amount equivalent to $22.2 million (20 percent of the total volume of investment) to the issuer's current account. The only result of this conversation was that literally within a minute of its conclusion a telephoned order came from RFFI Deputy Chairman A. V. Yakovlev that all talk with the AVVA AO would go through him only. At the present time there are, naturally, no documents that confirm performance of the investment program.

Here is what happened at the Turbine Blade Plant AO. The total volume of investment was $10 million. The purchaser of the block of shares at the investment competition was the Leningrad Metal Plant AO. There have been many articles written about the scandalous situation connected with, among others, this particular investment competition, and so I will just give the facts. On 21 February 1995 the Russian Fund sent a statement of claim to the purchaser in connection with its failure to perform its investment obligations, but on 14 April the demands of the claim were dismissed by a letter over the signature of A. V. Yakovlev (without the stamp of the control department), even though performance of the first stage of the investment program simply had not been confirmed by documentation.

Not insignificant in the adoption of the decision to abolish the control department was, it appears, the letter from the Procter and Gamble Company to A. V. Chubays which said that bureaucrats from the RFFI (Mr. Filimonov) and from Tula Oblast were supposedly "thwarting" their efforts to take a controlling block of shares in the Novomoskovskbytkhim [Novomoskovsk Household Chemical] AO, whose products, in particular laundry detergents, are well known.

In reality things were as follows: There are two primary legal documents that regulate the relations of the Procter and Gamble Company, the Novomoskovskbytkhim AO, and the Property Fund of Tula Oblast: the sale contract for the block of shares at the investment competition (14 percent) and an "Agreement on Business Cooperation." Many questions arise immediately upon acquaintance with the former document. It turns out that the investment program for such a giant of household chemicals as the Novomoskovskbytkhim AO, for a total volume of $50 million, was not ratified by anyone, not by Goskomimushchestva [RF State Committee on Management of State Property], nor in the extreme case by the seller (the Property Fund). In the sale contract itself it states that "implementation of the investment program begins on the starting date, which is determined by the purchaser and the company," but according to information from the Tula Oblast Property Fund no starting date has been set to the present time. So Procter and Gamble has already owned 14 percent of the stock for 18 months without officially investing one cent for it!

It cannot be said, of course, that there has been no investment whatsoever. It appears that there has been some, but it is being done under a different document, the "Agreement on Business Cooperation" between the Novomoskovskbytkhim AO and Procter and Gamble, dated 4 August 1993, whose Point 5.6 says directly that after capital investment of $50 million Procter and Gamble receives the controlling block (51 percent) of shares in the Novomoskovskbytkhim AO.

I will not undertake to assert that $50 million is precisely the price which should be paid to put such a major enterprise as Novomoskovskbytkhim (with three production spaces) under the control of a foreign company. In this case the more interesting question is: "Has there been investment?" Well, according to information from the Tula Oblast Property Fund they found confirmation of investment of just $3.5 million instead of the $10 million that Procter and Gamble was supposed to invest in 1994 and proportional to which it wanted to increase the charter capital of the Novomoskovskbytkhim AO in its favor at the general meeting of stockholders on 21 April of this year. Bold, aren't they? But the Tula Oblast Property Fund, along with the other major shareholder was able to block this effort until the situation with real investment is clarified. That is why, in our view, the managers of Procter and Gamble were so upset!

Unfortunately, there are quite a few such situations, both with foreign companies and with domestic ones, although the control department was managing to hold back this excess and even compel investors to perform their obligations.

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In connection with the need to replenish the budget it is expected in the near future that there will be a significant increase in the volume of sale of blocks of shares, including ones sold at investment competitions. In our opinion a smooth working system of control is being abolished. Yet the return of blocks of shares from the possession of unscrupulous investors for resale and the rigorous application of penalties are a significant reserve for replenishing the budget.

In conclusion I would like to acknowledge that, sinner that I am, I had the idea of sending a working report setting forth the above facts to V. S. Chernomyrdin. Maybe he does not know what is going on with investment in Russia? But intelligent people advised me not to send it. The report will go to Chubays, they said, and from to Chubays to Sokolov, and the circle will be completed!

***Elektrogorsk Plant Looks to World Nuclear Fuel Market**

954F2860A Moscow SEGODNYA in Russian
13 Jul 95 p 9

[Article by V. Romanenkova: "Producers of Fuel for Atomic Electric Power Stations Struggle for Quality and a Place on the World Market"]

[FBIS Translated Text] Recently the heads of the Russian nuclear branch adopted a decision to the effect that the producer of fuel is responsible for the normal operation of the core of a reactor at the station to which its products are delivered. As noted by Vitaliy Konovalov, the first deputy minister of atomic energy of the Russian Federation, so far there has not been a single violation or accident, nor has there been a single cassette reclamation. Apparently for the purpose of graphically demonstrating the effectiveness of the new approach and also to confirm the frequently declared safety of nuclear fuel production itself, journalists were admitted for the first time to one of the two enterprises which supply fuel to all AES [atomic electric power stations] of Soviet design. It is located at Elektrogorsk below Moscow, and with modesty characteristic of this type of production, it is called simply Machine-Building Plant.

This plant was established in 1917 by a certain entrepreneur named Ftorov, who purchased land here which was cheap at that time and organized the production of ammunition. That type of product was manufactured at Elektrostal until 1945. With the start of the nuclear project, the Machine-Building Plant as well began gearing up for the production of fuel assemblies for nuclear reactors.

Today the plant produces about 10,000 fuel assemblies a year for seven Russian atomic stations and nine foreign ones built by the USSR in Bulgaria, Slovakia, Czech Republic, Finland, Hungary, Lithuania, and Ukraine. Assemblies of three types are produced here for reactors of the RBMK, VVER-440, and BN type. Practically the entire process involved in their production is automated, but the enterprise still employs about 10,000 workers.

The technological cycle involves the following. Ore is supplied from uranium deposits. The uranium is granulated, dried, and fabricated into pellets which are in containers resembling store display cases. They can be examined and even felt through a special rubber "sleeve" with a glove. Then the pellets are inserted in tubes—future TVEL fuel elements. The pellets are inserted with the aid of a special vibrating mechanism. The tube is then sealed with a spring device and a cover. The TVEL is anodized, painted, and dispatched to another shop. There the tubes are lacquered and installed in cassettes.

Valeriy Mezhuyev, director general of the Machine-Building Plant, believes that "the high quality of the product is achieved by virtue of the fact that practically every operation, of which there are about 100, is closely monitored. On top of that we also perform several additional operations which are not stipulated even in nuclear fuel production methods used in the West. In the opinion of Valeriy Mezhuyev, success is also promoted to a great degree by the policy of most favored worker treatment of the local workers. By industry standards, they have a sufficiently decent wage—up to a million rubles—and by contrast with many enterprises in the related defense complex, not a single job has been eliminated or one worker laid off.

At the same time it is becoming increasingly more difficult for the plant to sell its products. Russian atomic electric power stations cannot afford to pay for the fuel in full or on time. The principle of the mutual settlement of accounts is not among the most profitable ones. The situation is eased somewhat by the solvent foreign consumers. Production, however, still continues to decrease. The shop for production of assemblies for the VVER-440 can produce 4,500 cassettes a year, but actually it produces only 2,000.

The plant, naturally, strives to make its way into the international nuclear market. Valeriy Mezhuyev asserts that there are no purely technical problems in that regard. Some of the lines have already been converted to production of uranium assemblies meeting world standards which differ from domestic ones. According to the director, such a shift required practically no additional expenditures since all equipment can be readily reprogrammed.

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Several dozen fuel rods were produced on the basis of an order from the German Simens firm. Using these TVEL, Simens will produce test assemblies which in July will be loaded in reactors in Germany and Switzerland. If the ordering organization is pleased with the quality, the plant will be assigned more productive work—production of entire assemblies. That may happen in early 1996. If the assemblies receive a positive evaluation by experts at the firm, an order for series production will follow.

Valeriy Mezhuyev stressed that "right now it is too early to talk about a contract and especially about prices. The very possibility of being able to work with a foreign firm is important to us. It is a way of demonstrating the quality of domestic fuel for AES and breaking through to the world market."

Countries selling AES fuel, naturally, do not wish to acquire another competitor. The instability of the political and social situation in Russia is frequently cited in the struggle for orders. Valeriy Mezhuyev mentioned another method used in discrediting domestic production which is highly reminiscent of one of the episodes in Suvorov's science fiction thriller "Aquarium." It turns out that intelligence services in the West "provoke the personnel, offering them prices a thousand times higher than real ones for stolen uranium." In a certain regard these intelligence services were successful in proving to their leaders that they are not being paid for nothing; attempts were repeatedly made at the plant to steal fissionable material. The "First Department," however, was not asleep: not a single gram of uranium ever got outside the territory of the plant.

***Air Transport Department Deputy on Sector's Role**

954E1175A Moscow VOZDUSHNYY TRANSPORT in Russian Jul 95 No 7, pp 1-3

[Interview with V.V. Gorlov, deputy director of the Department of Air Transport of the Russian Federation Ministry of Transportation, by the VOZDUSHNYY TRANSPORT editorial staff; place and date not given: "Russia Cannot Survive Without Aviation"]

[FBIS Translated Text]

[VOZDUSHNYY TRANSPORT] They are correct when they say that one must assess this day objectively in order to advance with confidence toward tomorrow. So what is today like for our civil aviation, Viktor Vasilyevich?

[Gorlov] Unfortunately, the current state of affairs in air transport does not give us cause for particular optimism. The breakdown of economic ties which had existed for years, the ruinous recession in air transport, the obsolescence of the fleet of airplanes and helicopters, and other problems have faced our sector with a very severe crisis. The problem of bringing aviation equipment up to date is especially critical. Competition in the international aviation market, and now in the domestic market as well, is increasing rapidly. "You cannot fly far" in obsolete aircraft, but with the introduction of new-generation aircraft which could provide air transportation that is economically profitable with high quality passenger services, there are more questions than answers.

Yes, Russia has a federal program to develop civil aviation equipment up to the year 2000. The Department of Air Transport and the sector's scientific organizations have been taking an active part in its preparation together with industry. The program has been adopted on a priority basis by the country's highest legislative organ. This document identifies the new types of aircraft, the periods for their development, and the deliveries forecast. The program is oriented toward market conditions and takes world trends in aviation development into account. We present a clear conception of what the fleet of civil aircraft should be like now and after 2000, but the problem is that the program is being realized very listlessly because of the lack of budget allocations to develop aircraft and the airlines' lack of funds to purchase them.

When the Ministry of Civil Aviation was still functioning, our sector acquired about 300 airplanes and helicopters from the aviation industry every year. Civil aviation enterprises settled accounts with the sector's centralized fund "on installments" by paying depreciation deductions. If this phenomenon is viewed from market positions, an efficiently organized system of "state leasing" existed at that time. For a number of reasons, it did not promote intensive use of aircraft and it had a number of other drawbacks, but it created the financial conditions for aviation enterprises to continuously re-equip the fleet with aircraft.

Last year, only three Tu-204's and one Yak-42 were purchased through centralized sources; partial payment was also made for four other Yak-42's. That was all. We would have liked more, but we "could not afford them." Only 47 of the 170 aircraft manufactured by industry were purchased by airlines under all forms of ownership in 1994. This is nothing but a breakdown of the domestic market for buying and selling civil aircraft. A serious threat has been hanging over the existence of the domestic aircraft industry, and subsequently over civil aviation as well.

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The situation is aggravated even further by the fact that the new-generation aircraft which we are managing to acquire are in need of important additional work to eliminate defects. Take the Il-96-300, for example. With all its merits, this aircraft is equipped with the PS-90A engines, whose reliability leaves much to be desired. Operation of the Il-96-300 by the "Aeroflot-Russian International Airlines" Joint-Stock Company has shown that flights were repeatedly delayed only because the engine required additional work not stipulated by the usual regulation.

In addition, the generators for the auxiliary power plant, the long-range communications complex, the air humidification system, and warning light panels need to be improved. It is also extremely necessary to remove restrictions on Il-96-300 flights when the ground temperature is minus 27 degrees, to remove the ban on night landings at high-elevation airfields, and to change the system for calculating the aircraft's center of gravity for landing and takeoff. We would like to see a more comfortable passenger cabin: it needs an audio system and a different kind of video system, and it would be good to install new baggage shelves, and so forth.

Several Russian airlines plan to introduce one more domestic aircraft—the Tu-204—in the near future. The new aircraft is economical and meets current environmental requirements. In principle, it could replace the Tu-154, which has put in a great deal of work. It is no secret that there are skeptics who assume that there is a delay in putting this aircraft into operation, but I am convinced that the Tu-204 may be leased this year by our leading airlines and enterprises and begin flights which will bring in profit. Incidentally, the passenger version of the Tu-204 has completed its certification tests. Service tests are being conducted on what in our view is the very efficient cargo version of this aircraft.

A time of technical subcontracting and close contacts between the operators and designers and manufacturers of aviation equipment make it possible to set one more task: when possible, ensure that the Il-96-300 and the Tu-204 are equipped with identical, interchangeable equipment, or at least similar equipment, including radio navigation equipment and diagnostics equipment for checking engines and monitoring aircraft systems. The recording equipment (MSRP) should be identical. The technical conditions for standardized equipment have already been developed for industry.

At the same time that we are introducing new aircraft we are working intensively with the design bureaus to extend the service life of aircraft and aircraft engines which are already in operation. This applies primarily to the Il-62, I-86, and Tu-154, as well as to the NK-86, NK-8-2U, D-30, and D-36 aircraft engines. This is only an extreme way out of the situation which does not resolve the problem entirely.

The situation with respect to "small aircraft" is even more critical. About 4,000 An-2 airplanes are now in working condition, and there are Mi-2 helicopters as well. An-28 and L-410 aircraft (we have more than 400 of these) may be used on local air routes, but there are fewer and fewer passengers every year. Hundreds of airplanes and helicopters are standing idle because customers lack the money. But in any case, they need to extend the service life, and they must maintain them and repair them...

There is one more problem here. All the airplanes and helicopters with small engines which are being operated in Russia were manufactured in Poland and Czechoslovakia under interstate agreements. Aviation enterprises paid for the aircraft and spare parts for them by taking into account the so-called "state subsidy coefficient;" that is, enterprises paid only for part of the cost, and the state paid the remainder. The state "subsidy coefficient" has been abolished now, and the airlines themselves are not in a position to buy aircraft and spare parts in Poland or the Czech Republic at world prices, although the plants in these countries are offering leases, barter, and simply discounts of 25 percent off the cost.

In a word, unless investments in "small aircraft" are forthcoming, nothing will be left by the year 2000; all the aircraft will be written off.

The situation is no better with respect to the plans for new aircraft for local air routes and for use in the national economy. Not entirely because what is being offered to operators is able to pass certification. But they cannot be operated without this today. [preceding 3 sentences don't make sense to me...pls check original. tks] Moreover, strict certification of aircraft is unlikely to permit all design collectives to survive. For this reason, they should clearly reflect what the customer wants from them. We need "small aircraft" primarily where there are no roads, in the taiga, but there is one exceptional requirement there: an aircraft should be capable of making a forced landing when the engine fails. This is simply impossible with single-engine aircraft.

The newly established design bureaus also have designs for twin-engine aircraft, but we must select one or two out of all the aircraft, declare them a state priority, and provide all kinds of assistance in financing and designing. One of these aircraft has been identified. It is the An-38. Production of it under the conversion is

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being handled by the Novosibirsk Aviation Production Association.

It should not be forgotten that the technical solution of new aircraft for local air routes is a social task of vast importance. The operation of aircraft in locations with limited access is a question involving the life of entire regions, and it is impossible for them to manage without state assistance aimed at creating the conditions for this.

The need to develop so-called business aircraft is also dictated by conditions today. In the West, they have long been considered not as a "luxury item," but "a means of moving" people who know the value of time and who value their prestige. Only the first practical steps are being taken in this direction in Russia. In particular, the government has issued a decree on development of the Yak-48 business aircraft. The aircraft, with seats for six to eight people, will be developed by the OKB [experimental design bureau] imeni A.S. Yakovlev jointly with the Israeli "IAI" firm and the Saratov Aircraft Plant. The aircraft is capable of flying up to 6,500 kilometers at a speed of 870 kilometers per hour with eight persons on board. A regional version of this aircraft to accommodate 19 passengers, which has a range of up to 3,000 kilometers, is being developed at the same time.

[VOZDUSHNYY TRANSPORT] We seem to have forgotten about helicopters in civil aviation lately. For a long time we expressed pride in our domestic rotary-wing aircraft, emphasizing that no one in the world has such powerful helicopters as the Mi-6 and the Mi-10K. It is no secret that our helicopters have had serious competitors in the West. Aren't they overtaking us in this area as well?

[Gorlov] As you know, we have developed two helicopters recognized throughout the world: the Mi-26, which can carry up to 20 tons suspended externally, and the Ka-32, which can lift up to 5 tons suspended externally. The Kamov helicopter operates like a flying crane in unloading ships anchored offshore and in hauling timber out of ravines in a mountainous area.

Incidentally, the Ka-32A has already been certified, and operations to certify the Mi-26 are being concluded. Nevertheless, today we need more advanced and fundamentally new helicopters. The point is that the Ka-32 has a very specific cargo cabin; it is small and inconvenient. After all, the aircraft was developed for the needs of the Navy, not civil aviation.

Our design bureaus have priority programs as well as simply pioneering programs to develop new helicopters. This refers chiefly to light helicopters with a takeoff mass on the order of 1 ton. There are even more powerful aircraft as well. As an example, a mockup commission has been conducted for the Mi-38 helicopter. It will have a takeoff mass of up to 15 tons. It will have modern engines, a lifting system with elastomeric [what's this?] hinges, and a digital flight control and navigation complex. However, it may appear in civil aviation enterprises only at the end of the 1990's. Drawings of it are now being completed, and it is being prepared for series production in Kazan. This aircraft is to replace the Mi-6 and the Mi-8, which have provided good service.

Several years ago we were counting heavily on the V-3 helicopter manufactured in Poland, but unfortunately, the process of its development and certification was delayed extensively, and today the aircraft cannot be afforded by our operators. Instead of it, the Kamov firm is developing the Ka-62 helicopter, but the design bureaus headed by M.V. Vaynberg and S.V. Mikheyev are suggesting a group of helicopters with different takeoff masses. These include the light four-place Mi-34 and the heavier Ka-126 and Ka-226.

Buying a new airplane or helicopter is only half of the matter, as they say. How should their operation, maintenance, and repair be organized correctly? Finally other problems include providing for their further refinement, "tying" them to specific conditions for use, and their modifications? These are also far from simple problems which must be resolved. This is why a great deal of attention is being devoted to the role of engineering and technical support for flights in the program to develop civil aviation until the year 2000. A large and important place in it is given to the system for certification and licensing aviation technical complexes which specialize in aircraft maintenance. After all, no matter how many airlines are operating or how many aircraft are registered, there should be a very strict procedure in each specific case, and a system should be developed and actively functioning which ensures adherence to flight and operating rules.

The problem is not that many new airlines have made their appearance, but that the proper procedure has not been put into effect. There are many more companies in the United States than in Russia, but a clear-cut legal system regulating their activity has been developed there, and the state strictly and continuously monitors adherence to the established standards and rules.

We have also begun to be seriously concerned about these problems. A universal system for certification of all our production processes, personnel, aircraft, ground equipment, aviation systems, and educational institutions is being developed in the sector. All this is aimed at ensuring that advanced aircraft are operated

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in strict conformity with the requirements incorporated by their developers.

Take the Il-96-300 and Tu-204, for example. As stated in normative documents, maintenance is to be conducted only in covered hangars. These aircraft cannot be laid bare under the open sky, as they say.

[VOZDUSHNYY TRANSPORT] Yes, but are our ground facilities prepared to handle this new equipment and organize its maintenance and repair? Or will we say only that the ground is lagging behind the sky, as before?

[Gorlov] I want to particularly stress that even under the extremely difficult conditions now, there are enterprises where the closest attention is being devoted to developing a production base. For example, a very modern hangar is being built at Pulkovo with their own funds. It will be able to provide maintenance for aircraft of any type. At Sheremetyevo, one hangar has already been built and construction of another one is continuing, based on cooperation with Western firms. Incidentally, the latter is designed to accommodate any advanced aircraft, whether it is an Il-96-300, a Boeing 767, or an A-310. Not only aircraft maintenance, but repair, including replacement of assemblies and engines, can be carried out in the hangar.

Vnukovo has had the largest production base at its disposal for many years, and this is completely understandable. New aircraft have been operated from there for the first time, but now Vnukovo is even lagging behind what was formerly the periphery—Novosibirsk, Khabarovsk, and Ufa. When the Vnukovo Production Association was formed, considerable construction was undertaken there, but during the so-called "perestroyka" years, it was essentially discontinued, not delayed. However, the management of the recently formed "Vnukovo Airlines" decided to finish construction of one of the country's largest hangars.

Construction of a hangar is also under way in Krasnoyarsk, and similar structures are already being used in Ufa and Arkhangelsk.

In speaking about the introduction of new aircraft and development of ground facilities for their operation, we cannot fail to mention this problem. The shortage of domestic aircraft today is being filled more and more by the purchase of Western aircraft and the equipment that goes with them. We were unable to think about this in the recent past. Now all this is in the nature of things, but our task is to provide for a reasonable combination of imported and Russian equipment. In my view, there should be a certain proportion of Western aircraft in our air fleet. This is the situation which exists in many countries. Moreover, a certain presence even plays a positive role: they provide access to technology that was unknown previously and force us to study other models and assimilate world experience. In addition, the availability of Western aircraft promotes further contacts between aviation enterprises. This improves the interaction and penetration of our scientific and technical ideas in the West. Everyone can only gain from this.

There is another side to this. If this process is allowed to take its course, we will be left without our own aircraft in a few years, and Russia will be turned from the largest aviation power into just a user of West European and American firms' products. If we permit such a development, we directly harm our national interests.

So what is the solution? In our view, we need effective state support for our domestic aviation industry, and this is best accomplished by creating the conditions for operators to buy airplanes and helicopters. The airlines rent or lease the equipment; by making use of it, they earn money and then settle with industry. For this purpose, we have introduced a proposal to establish special financial-industrial groups composed of operators, design bureaus, plants in industry, and banks. With their assistance we expect to purchase aircraft by installment payments and make use of treasury bonds, the system of monetary turnover with bills of exchange, and securities. In other words, apart from "ready cash," we must attract everything that can work for this purpose. Of course, we need assistance in providing tax exemption. Only under these conditions can we update the fleet of aircraft for air carriers and support the aviation industry at the same time.

[VOZDUSHNYY TRANSPORT] A sector such as civil aviation cannot live just for today. Without the development of science and continued improvement of aviation personnel, there is nothing to dream about in civil aviation's future. Isn't that true, Viktor Vasilyevich?

[Gorlov] Absolutely. However, I must say frankly that the current state of the sector's science is more than dramatic. First of all, the number of scientific personnel in our leading institutes—the GosNII GA, GosNII "Aeronavigatsiya," [State Civil Aviation Scientific Research Institute, the State Scientific Research Institute for Airspace Use and Air Traffic Control], and the former VNII PANKh GA [All-Russian Scientific Research Institute for the Use of Aircraft in the National Economy] in Krasnodar—have been reduced by nearly half. The salaries of scientists, regrettably, are much lower than in operational enterprises and commercial structures, and there is a constant outflow of highly skilled scientific personnel for that reason. Currently, there are

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no reassuring prospects. Half the amount of funds allocated last year for the needs of science in the sector were provided this year, but even then we received a pittance. Should we be surprised after this that scientists are occupied in the search for funds to survive instead of basic research efforts? Unless radical steps are taken, the consequences may simply be unpredictable.

Sectorial science in civil aviation can be saved only by creating a nonbudgetary sectorial fund for scientific research and experimental design work (NIOKR). We want to believe that airline managers will understand the critical state of science and take part in building up this fund, despite their own economic difficulties. Such a fund has been formed in the Department of Air Transport, and its supervisory council is headed by the department's director. The fund has begun to receive payments, but they are still very small.

The system for training aviation specialists has turned out to be in a very difficult situation. Flight schools, aviation technical colleges, and higher educational institutions are being financed only through the budget, and this is clearly inadequate. At the same time, the sector cannot manage without a reliable training base. This is why the employees of our educational institutions have to think about how to correct the situation through other sources, whether they like it or not. In this case, we hope mainly for the airlines' motivation to develop and support the sector's education.

The constant outflow of specialists from divisions in the department is also a source of considerable concern. If we are left without serious and competent specialists, this can have irreversible consequences. We are fortunate that there are still quite a few enthusiasts who do not work for the glory of the ruble, but simply because they love their work. We have to keep such people and help them in every way possible.

All the same, I am deeply convinced despite all our problems that we and our colleagues in the aviation industry will find the opportunity and the strength not only to maintain civil aviation and its infrastructure, but to advance to an even higher level of development. A vast country such as Russia simply cannot survive without aviation.

***Tu-334 Passenger Liner Profiled**

954E1175B Moscow VOZDUSHNYY TRANSPORT in Russian Jul 95 No 7, pp 4-7, 9

[Article by Yevgeniy Nikitin, ITAR-TASS expert on scientific and technical matters, written especially for GRAZHDANSKAYA AVIATSIYA: "The Tu-334 Passenger Liner"]

[FBIS Translated Text] "The entire world 'has weighed itself' in 100-seat aircraft." This is how Igor Kalygin, the chief designer of the Tu-334, characterized the demand for these aircraft. Indeed, China and South Korea have signed a joint agreement to develop a 100-seat aircraft. The American Boeing firm is working on a similar aircraft. Another American aircraft manufacturer—McDonnell Douglas—is carrying out the MD-95 program, which it considers to be its top priority. Japan is developing a 100-seat aircraft.

Russian aircraft designers proved to be more farsighted than their Western colleagues. In particular, the Tupolev firm began designing the Tu-334 back in 1989, but Russia's 6-year advantage over foreign developers of the same type of aircraft was curtailed by the well-known problems affecting the aviation industry, and it has no more than a 3-year advantage today.

Our country has a high demand for a 100-seat aircraft because first, production of the Tu-134 has been discontinued and second, we need an airliner today which meets the requirements of world standards for basic indicators: fuel economy, serviceability, and comfort level. No one is interested in the difficulties involved in the design, production, or financial procedure. A high quality and competitive end product is required. The one that possesses it is the winner.

The Tu-334 was conceived as an entire family. Development of the basic model is envisioned not only in accordance with passenger capacity. It is planned to increase its range from 2,000 to 4,000 kilometers or more, that is, to turn the Tu-334 into a medium-range mainline aircraft to replace the Tu-154, although it has less passenger capacity. Moreover, plans are being made for cargo modifications and versions of the aircraft with engines manufactured by foreign firms and with some Western equipment. In a word, aircraft in the Tu-334 family will differ in range, payload, type of power plant, avionics and equipment, and interior and cabin configuration in accordance with the customer's individual requirements. This is the most progressive "ideology." It has already been put into effect in the medium-range Tu-204 mainliner.

Developments in the Tu-204, as well as advanced achievements in world aviation, have been utilized in the Tu-334 design. Aircraft systems, equipment, and units or their parts which are interchangeable with similar ones on the Tu-204 have been installed in full or in part. Thus, 80 percent of advances in the flight control and navigation complex of the Tu-204 are being used. The same applies to the auxiliary power plant. The structural

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materials used are the same, and 80 percent of the design solutions for the Tu-204 have been incorporated.

There is a great deal that is new, however. The fuselage contours are different, but selection of the skin, the materials, and the loads was made by taking the experience gained in the Tu-204 into account. Apart from the fact that the achievements already realized through scientific and design thinking are being utilized in the best way, this continuity makes it possible to surmount the problems of the certification process to a substantial degree. We know that the approach to aircraft certification differs fundamentally from what existed previously.

Up to 20 percent of the amount of certification work conducted on the Tu-204 is being transferred to the Tu-334. For example, the Tu-204's entire cockpit and all its structures, equipment, ergonomics, interior elements, and materials will be used in the new aircraft. The same approach is justified with respect to design solutions related to the flow of fluid in the hydraulic systems.

Structural Features

The **airframe** of the aircraft is separated by breaks and technological compartments into 10 basic elements: the nose, center, and tail sections of the fuselage; the compartment for the VSU [auxiliary power plant]; the wing center section; the outer wing panels; the vertical stabilizer; the pylons; and the engine nacelles.

The fuselage is assembled without flange joints. Units and sections of the fuselage are a completed part of it with an installed floor structure, completed assemblies, and part of the interior elements. Assemblies and sections of the fuselage are connected across short stringer-inserts on padded tape and cantilever panels.

Longitudinal joints of the panels within assemblies are overlapping. The stringers under the fuselage floor are made of a sheet alloy bent under stress.

The wing consists of a torsion box-fuel tank made up of the center section and two outer wing panels. The wing panels are linked structurally with the center section. A feature of the wing is the absence of access panels. Access to the torsion box in assembly and operation is through manhole hatches located in the wing's lower panels. The latter's skin is made of rolled and pressed panels up to 13 meters long. The spar booms are machined entirely out of pressed sections up to 15 meters long. The wing's high-lift devices and controls are honeycombed in construction, with skin made of composition materials.

The tail unit consists of a vertical stabilizer and tail plane. Machined panels form the central part of the vertical stabilizer and tail plane. Panels on the starboard side and the lower panels of the tail plane are removable. The joint between the wing and fuselage is engineered. The leading edge and spar sections of the fin, the rudder, the stabilizer and elevators are honeycombed in construction, with skin made of composition material.

The Landing Gear

The nose gear consists of a frame hinged to spars in the wheel well and a single-chamber shock absorber, an axle with two wheels with 620 by 180 millimeter tubeless tires which retract to the rear, and a damper unit for taxiing which transfers torsion force through the hinges to the wheel strut.

The frame has a hinge bracket to lock the gear in retracted position. The nose gear is driven by the extension-retraction cylinder.

The main landing gear is of the lever type, equipped with a shock absorber and two modified KT196 braking wheels and 1,070 x 390=480R radial tires.

The main landing gear is positioned between wing spar number two and the special landing gear beam; it has a three-dimensional axis for extension, and in the retracted position it fits into special wells in the fuselage. In the retracted position, the main gear is covered by doors in three sections: for the wing, the fuselage, and the wheels.

The main landing gear is retracted and extended with the help of the retraction and extension cylinder from the aircraft's second hydraulic system; a reserve extension cylinder is available for main gear extension.

Primary braking of the main landing gear is provided by the second hydraulic system, and reserve braking is provided by the first system.

The main landing gear is equipped with sensors for the weight and balance system.

The electric remote-controlled braking system makes it possible to apply brakes in a booster regime, to be automatically activated in an aborted takeoff. In addition, it can operate automatically with two levels of brake pressure applied by the pilot. This same system automatically brakes the wheels of the main landing gear when they are retracted.

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The Power Plant

In the aircraft's basic version, the power plant consists of two economical D-436T1 turbojet engines. This is a new modification of the D-436 engine. It was developed by taking into account the requirements for an engine of this class and it retains a high degree of standardization with the basic D-36. The D-436T1 achieves higher indicators for the following reasons:

1. use of a new fan with improved efficiency and a higher degree of increased pressure in the external duct;
2. installation of an additional support stage for the compressor; and
3. a moderate increase in the temperature of gas in front of the turbine.

The high reliability indicators of the D-436T1 are guaranteed by experience in operating the basic D-36 engine, which has accrued on the order of 3 million hours in Yak-42, An-72, and An-74 aircraft.

The principal advantages of the D-436T1 engine are as follows:

1. low specific fuel consumption and small specific mass;
2. high reliability and simplicity of maintenance;
3. modular construction and availability of a reverse assembly;
4. efficient units for technical monitoring and diagnostics; and
5. low levels of pollutant emission and noise.

As of today, the D-436T1 is the world's best engine for an aircraft of these dimensions. The engine has a very good basis which has been sufficiently refined. An additional head stage has been installed on it, and a number of materials have been changed to increase its service life. It is quite reliable. By the beginning of operation, this engine will have a service life of 6,000 hours, and it will be increased by 2,000 hours each year.

Today testing of the T1 engine is proceeding in accordance with the T2 program. These two modifications have identical dimensions and weight features. The main difference between the T1 and T2 is that the temperature will be raised by 15 to 20 degrees. The thrust of the T2 engine will be raised to 8,200 kgs [kilograms-force].

The power plants cited are being manufactured under contract by four plants: in Zaporozhye, Samara, Moscow, and Ufa. The enterprises can make as many of them as needed. If there are orders for 200 Tu-334 aircraft before the year 2002, the plants will be able to meet the full requirement for engines.

The power plant may be assembled by "Motor-Sich" as well as in Ufa. "Motor-Sich" is capable of performing 38 percent of the operations and producing a finished assembly, but Ufa can manufacture 100 percent of the engine.

PERFORMANCE OF THE D-436T1 (T2) ENGINE

Fan diameter, in mm	1,373
Dry mass, in kg	1,450
Takeoff regime when N=0 [possibly: altitude], Mp=0 [expansion unknown], and Tn [outside air temperature] = plus 30 degrees C:	
Ideal thrust, in kilograms-force	7,650 (8,200)
Gas temperature in front of RK TVD.K [presumably: turbine compressor]	1,483 (1,520)
Maximum cruise conditions when N=10,670 m and Mp=0.75, at MSA [international standard atmosphere]:	
Ideal thrust, in kilograms-force	1,600 (1,700)
Specific fuel consumption, in kg per kilograms-force per hour	0.592 (0.593)
Bypass ratio	4.95 (4.9)
Compression ratio	25.2 (26.2)

Foreign firms are offering their power plants for installation on the Tu-334, but their dimensions are too large for the Tu-334. The only engine which would suit Russian aviators is the VR-715 developed by "BMV-Rolls-Royce." Its gas generator is on a test stand. The engine will make its appearance in 1997.

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On-Board Equipment

The basic approach in selecting the aircraft's on-board equipment is that it should be produced in Russia; even if it is Western technology, it should be produced entirely by domestic enterprises. This applies to the avionics and air conditioning system. In particular, the Nizhegorod "Teploobmennik" firm, with the German ("Liebher") firm, the French ("Sinca") firm, and the U.S. Allied Signal firm, are turning out an air conditioning system which has much better weight and reliability features than anything produced in Russia thus far. The main feature is that it is being integrated with a digital control system.

The air conditioning system operates just as inconspicuously as on the A-340 and Fokker-100 aircraft, but it will be turned out in a Russian enterprise. A distinctive form of barter has been found: "Teploobmennik" is manufacturing certain assemblies for Western aircraft, and Western firms are giving us part of their technology.

The avionics are produced by the Honeywell firm, but there are extensive plans for installation of the entire communications and flight control and navigation complex of the Honeywell firm with its complete reproduction in the Ramenskoye Design Bureau. Appropriate negotiations have been held on this. The technology and production preparation in the Ramenskoye Design Bureau are adequate to handle the Western technology. Development of this equipment should proceed in three stages, but there are individual elements which will be shipped from the West—gyroscopes, for example.

The Hydraulic System

The system consists of three independent hydraulic systems which are insulated from each other and support the following:

1. the flight control system (the stabilizer, rudder, elevators, ailerons, and spoilers) from the first, second, and third hydraulic systems;

2. the air brakes from the second hydraulic system;

3. the flaps from the first and third systems and the slats from the first and second hydraulic systems;

4. the systems for extending and retracting the landing gear from the second hydraulic system, the reserve system from the third hydraulic system, and the emergency system from the first hydraulic system;

5. the systems for controlling the turning of the nose wheel from the first and third hydraulic systems;

6. the main braking system from the second hydraulic system and the reserve and parking brake system from the first hydraulic system; and

7. the port engine reverse system from the first hydraulic system and the starboard engine reverse system from the third hydraulic system.

The nominal operating pressure in the hydraulic system is 210 kilograms-force per square centimeter, using the AMG-10 working fluid.

The Fuel System

The aircraft's fuel is stored in three tanks (port and starboard) and two service compartments located in the wing. Tank No. 1 consists of three interconnected compartments (two in the wing and one in the center section).

Each engine is supplied from its service tank with the aid of alternating-current electric pumps.

The fuel system is intended to function with fuel which does not have anticrystallization additives. For this purpose there is an on-board system for processing the fuel residue which automatically removes the water and reduces maintenance time.

Centralized refueling is provided through an MS-45-80 international-type fuel filler located in the leading edge of the starboard wing. It takes 8 to 10 minutes for the aircraft to be completely refueled.

Information on operation of the fuel system and its current parameters is displayed on screens of the warning and indicator system and the monitoring panels.

The Power Supply System

The following are installed on the aircraft:

1. the main alternating-current power supply system, which generates 200/115 volts at a frequency of 400 hertz;

2. a secondary alternating-current power supply system, which generates 200/115 volts at a frequency of 400 hertz; and

3. a secondary direct-current power supply system which generates 27 volts.

The Oxygen System and Smoke Protection Equipment

The fixed oxygen system is designed to supply oxygen to the crew in flight in a pressurized cabin and to protect respiratory organs and eyes from smoke and toxic gases in a fire.

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Units of oxygen equipment installed at each crew member's position consist of a stowage unit and an oxygen mask on which an oxygen instrument and a microphone are mounted. The mask is removed from the stowage unit and put on with one hand in less than 5 seconds with the aid of an inflatable headband made of rubber tubing.

The crew system has an oxygen supply of 3,250 liters (one oxygen cylinder with a capacity of 25 liters under pressure of 130 kilograms-force per square centimeter). Crew members are protected from smoke at their work positions by smoke protection safety goggles.

The emergency fixed automatic system for passengers and flight attendants is designed to supply them with oxygen in the event that the passenger cabins are depressurized. When pressure "altitude" is reached in the cabin (4,500 meters), the covers of emergency oxygen units are opened and the masks drop down automatically. The emergency oxygen units are in the baggage shelves over each row of passenger seats. There are 10 percent more oxygen points than the number of seats. Each toilet has one emergency oxygen unit. The oxygen supply in the system for passengers and flight attendants totals 3,250 liters (one oxygen cylinder with a capacity of 25 liters and under pressure of 130 kilograms-force per square centimeter).

The portable oxygen equipment provides for the following:

1. protection of the crew and flight attendants from the effects of smoke and toxic substances when they move about the aircraft;

2. protection of flight attendants from oxygen deficiency when they render assistance to passengers under depressurized conditions; and

3. a therapeutic supply of oxygen for passengers in flight.

The portable oxygen equipment consists of an oxygen supply unit with a smoke protection mask or a passenger's therapeutic mask attached to it (depending on its use).

Survival Aids for the Passengers and Crew

There are four emergency exits (two on each side) to evacuate passengers in the event of an emergency landing on dry land or water. The width of the transverse aisle to each emergency exit is no less than 540 millimeters. Four inflatable slides attached to the emergency exit doors are used by the passengers and crew to abandon the aircraft in an emergency after a forced landing on dry land. Activation of the slides and their placement in position are automatic when the emergency exit is opened. There are two recovery lines installed over the cockpit windows for use when the crew abandons the aircraft this way.

For emergency evacuation on the water, life jackets for each passenger and crew member, four life jackets for children, and two rescue baskets for children are provided.

For flights over water lasting more than 30 minutes, four life rafts to accommodate 30 people each (one raft for each emergency exit) are provided instead of two passenger seat units. An emergency supply of provisions and a radio beacon are provided in each raft.

The Water Supply System

The aircraft is equipped with a centralized water supply system which is dispensed under pressure. It provides drinking water for the faucets and hot water heaters, and in the toilets it provides water for the faucets and mixing units and in the toilet bowls. The water filling panel and the water drainage panel located in the tail and nose sections of the fuselage are used for ground servicing of the system (filling, draining the water, washing).

The Waste Disposal System

The aircraft has a water-vacuum waste disposal system. It flushes the toilet bowls and transfers the waste to a receiving tank where it is subjected to vacuum pressure in the system or pumped out by a compressor (on the ground or up to 4,000 meters in altitude during flight), or by the natural differential in pressure between the cabin and the atmosphere (above 4,000 meters during flight).

Water from the water supply system is used to flush the bowls. The amount of water used in one flush is no more than 230 grams. The receiving tank holds 125 liters.

The system is controlled automatically by an electronic unit.

* * *

The Tu-334 has no competitors within the CIS. It is the best aircraft in the 80- to 120-seat class according to all indicators, although there are competitors in other countries: the Fokker-100, the Boeing 737-500, the BAe-146, and the MD-95. Although these aircraft are within a "hairbreadth," they are inferior to the Tu-334 in range and economy. Moreover, the foreign aircraft are twice or three times as expensive as the domestic one.

What was the status of the development batch of aircraft at the moment this article was prepared for publication?

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There will be five aircraft in the development batch.

The first one: Production has been completed. The aircraft is in the final stage of construction. If the equipment of manufacturing plants located in warehouses can be purchased, the aircraft may be flying in the near future. A demonstration of the aircraft is planned for the air show in Zhukovkskiy at the end of August.

The second one: It is at the TsAGI [Central Aerohydrodynamics Institute imeni N.Ye. Zhukovskiy] for testing. It was taken there on 18 August 1993. The first stage of these tests is under way. The high-lift devices for this aircraft are in Kiev, ready to be shipped.

The third one: This is the second aircraft. Its fuselage was manufactured at the plant of the ANTK [Aviation Scientific and Technical Complex] imeni A.N. Tupolev AO [Joint-Stock Company] and has been shipped to Taganrog, so that the second series plant for manufacturing the aircraft can be linked up as soon as possible. From the standpoint of the aircraft's future existence and assimilation of its production, this appears to be a sound decision, although to a certain extent this is detrimental to testing of the aircraft.

The fourth one: This is an endurance test aircraft. In the first half of the year, Kiev should conclude its production and send it to Moscow for endurance testing at the TsAGI. They are already prepared to receive it there.

The fifth one: This is the third aircraft. Production of it should be concluded by the end of this year. The ANTK imeni O.K. Antonov is doing everything possible to make the first series aircraft in its plant, investing its own funds obtained from other programs to develop the Tu-334.

Organization of the Aircraft's Production

At the last conference at the ANTK imeni A.N. Tupolev AO held at the beginning of 1995, the decision was made to form the "Tu-334-Yug" [South] Joint Venture.

The SP [joint venture] council includes those enterprises directly involved in the program to manufacture the aircraft and its engines: the ANTK imeni A.N. Tupolev AO, the series plants in Kiev and Taganrog, the "Progress" and "Motor-Sich" ZMKB [the engine plants; expansion unknown], and the "Rossiyskiy Kredit" Bank. After the founding documents are signed, Ukraine's largest bank—"Vozrozhdeniye"—plans to become part of the joint venture. The air carriers also will become part of the joint venture. It will be a structure grouping the design process and the manufacture, operation, and sale of the Tu-334 in a single unit.

Since the airlines cannot purchase the airliner at its full price right away, operations can be started under leasing conditions, attracting bank capital to pay for the aircraft. Repayment will be made after operations are begun by deductions from profit.

There are no completed Tu-334's at present. The joint venture will be concerned with financing the support for series production, advertising and marketing, accumulating orders for manufacture of the aircraft, and providing the series plants with materials and assemblies. The joint venture is involved in the entire cycle from designing to manufacture, and combines the entire technological process into a unified whole. Later on, this structure will also be involved in organization of construction and the financing, preparation for sale, and maintenance of the aircraft.

Some 230 enterprises are involved in new developments for the Tu-334 and another 100 are turning out items in series. Creation of such an association is also important because under conditions in which two states are involved, the same products may cross back and forth over the border several times. This process also requires constant and more efficient regulation, monitoring, and simplification of procedures. For this reason, the opportunities presented by the joint venture will contribute to the establishment of stronger ties among the producers of aviation equipment stipulated by the intergovernmental agreements of 1993.

Taking into account the importance of realizing the Tu-334 program (it was adopted as a priority for Russia and Ukraine), delegations of Russia's Goskomoboronprom [State Committee on the Defense Industry] and Ukraine's Minmashprom [Ministry of the Machinebuilding Industry] held a special conference in late February. It resulted in a decree by the Russian and Ukrainian Governments on the program to develop the Tu-334 aircraft and the D-436T1 engine, and this program was recognized as a priority for 1995. The decree reflected questions related to special-purpose financing, credit on favorable terms and tax privileges, exemption from NDS [value-added tax] and customs duties, and state support for special metallurgy enterprises for participants in the program.

Schedules for building the Tu-334 and the D-436T1 were drawn up and approved. Steps were taken to pay off the debt for work completed in 1994 by Russian and Ukrainian enterprises. The series plants worked out and adopted schedules for production certification of the TU-334's and the engines for them.

Specialists estimate that there may be a demand for 300 Tu-334's in the domestic market alone before the year 2005.

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Versions of Passenger Cabin Layout for the Aircraft With D436 Engines

In the 102-seat tourist version, the tourist-class seats are spaced at 810 millimeters.

In the 92-seat mixed version, there are eight passenger seats spaced at 1,020 mm in first class and 84 passenger seats spaced at 810 mm in tourist class.

In the 86-seat mixed version, there are eight passenger seats spaced at 1,020 mm in first class, 12 passenger seats spaced at 960 mm in the increased comfort section, and 66 passenger seats spaced at 810 mm in tourist class.

Exterior Dimensions and Basic Performance of the Aircraft

Wingspan, in meters	29.8
Length, in meters	33.0
Height, in meters	8.8
Wing area (as a trapezium), in square meters	83.2
Maximum takeoff mass, in kg	46,100
Maximum landing mass, in kg	43,500
Passenger capacity (when spacing of passenger seats is 810 mm)	102
Maximum payload, in kg	11,000
Maximum airspeed, in kilometers per hour	880
Fuel consumption per passenger-kilometer, in grams	21
Length of takeoff run, in meters	1,820
Length of landing roll out, in meters	1,840

* * *

All questions expressing interest should be addressed as follows: "Aviation Scientific and Technical Complex imeni A.N. Tupolev," 111250 Moscow, Academician Tupolev Embankment, 15. Telephone: (095) 267-61-60. FAX: (095) 261-08-68, 261-71-41

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***Motor Vehicle Production Statistics**

954E1184A Moscow ZA RULEM in Russian Jul 95
No 7, p 19

[Unsigned article: "Production of Passenger Cars and Buses in Russia"]

[FBIS Translated Text]

Production of Passenger Cars and Buses

Plants and models	1994	1993	%
PASSENGER CARS			
AVTOVAZ JOINT-STOCK COMPANY(AO)	530876	658463	81
Including:			
VAZ-1111	3375	1503	224
VAZ-1111(modifications for the disabled at SeAZ	2031	3872	52
VAZ-2104 and modifications	37331	47430	79
VAZ-2105 and modifications	63406	79393	80
VAZ-2107 and modifications	53738	73563	73
VAZ-2106 and modifications	155593	192834	81
VAZ-2108 and modifications	34700	41623	83
VAZ-2109 and modifications	76875	103627	74
VAZ-21099 and modifications	47707	51086	93
VAZ-2121,-21213 and modifications	56120	65404	86
AO GAZ	118159	105654	112
Including:			
GAZ-3102 and modifications	4365	2792	156
GAZ-31029(sedan)	111408	101500	110
GAZ-31022(all-purpose)	1617	994	163
GAZ-31023(medical)	761	361	211
GAZ-3105	8	-	-
AO MOSKVICH	64434	93847	69
Including:			
AZLK-2141-01(VAZ-2106-70 engine)	4096	8625	48
AZLK-21412-01(UZAM-331-10 engine)	37057	84459	44
AZLK-21412(UZAM-3317 engine)	22917	-	-

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Plants and models	1994	1993	%
AZLK-21418-01(police)	26	173	15
AZLK-2141-131(for Latin America)	34	393	9
AZLK-21411(Ford diesel)	304	195	156
AO UAZ	53178	57604	92
Including:			
UAZ-3151	842	1487	57
UAZ-31512	37322	52107	72
UAZ-31514(hard top)	14616	2376	615
UAZ-31517,-31518(diesel)	59	40	148
UAZ-3152(medical)	339	1594	21
STATE PLANT IZHMASH	17458	28031	62
Including:			
IZh-412-028(sedan)	13990	21524	65
IZh-21251(combi)	2272	4900	46
IZh-2126	1196	1607	74
AO KamAZ(compact car plant)			
VAZ-1111	6118	6275	116
AMO ZIL			
ZIL-41047	7	9	78
BUSES			
AO ULYANOVSK MOTOR VEHICLE PLANT	27197	14297	190
Including:			
UAZ-2206	10962	5127	214
UAZ-3962(medical)	16235	9170	177
AO PAVLOVSK BUS PLANT	9077	10835	84
Including:			
PAZ-3205	9073	10780	84
PAZ-3205-40(chassis)	4	56	7
JOINT-STOCK COMPANY(AK) KURGAN BUS PLANT	4429	15710	28
KAvZ-3976 and modifications	4140	15309	27
KAvZ-397601(northern)	289	401	72
AO LIKINO BUS PLANT	2031	3908	66
Including:			
LiAZ-677M(urban)	1812	2466	73
LiAZ-677MB(suburban)	2	944	-

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Plants and models	1994	1993	%
LiAZ-5256(urban, diesel)	217	498	44
AO TOSNO BUS PLANT	73	52	140
Including:			
Tosno-677M	68	34	200
Tosno-5256	5	18	28
AO DAVYDOVO (FORMER AGRICULTURAL MACHINERY PLANT)	146	36	405
Including:			
DZSKhM-677M	115	-	-
DZSKhM-52565(suburban, diesel)	31	36	86
AO GOLITSYNO BUS PLANT	61	25	244
Including:			
Mercedes-O303RHP	36	25	144
Mercedes-O303KHP-A	1	-	-
Mercedes-O305	24	-	-
AO NEFTEKAMSK DUMP TRUCK PLANT	354	2027	17
Including:			
NefAZ-3964-66(service, on a GAZ-66 chassis)	88	797	11
NefAZ-4951(service, on a Ural-4320 chassis)	76	341	22
NefAZ-49472(service, on a Ural-375Ye chassis)	98	579	17
NefAZ-4208(service, on a KamAZ-43101 chassis)	92	310	30
AO TROLLEYBUS PLANT, ENGELS	762	1705	42
Including:			
ZIU-682G and modifications	594	1468	40
ZIU-683B,-V(articulated)	41	115	36
ZIU-6205,-62052(articulated)	79	122	65
AMO ZIL			
ZIL-118	1	18	6

*Problems Threatening Future of Gold Extraction Discussed

954E1179A Moscow TRUD in Russian 12 Jul 95 p 2

[Article by Albert Kozlov: "The Despised Metal—Will Gold Extraction in Russia Be Preserved?"]

[FBIS Translated Text] I recently was persuaded again that gold is a "despised metal" in our country. Last year the government was unable to buy more than 40 percent of the "harvest" from the miners. Who else can they sell it to? The law dictates that it can only be sold to the state.

The small-time prospectors also sat on their gold without money. Gold extraction is limping along. In 1993 they extracted 149.4 tonnes, and last year 142.5 million. The quota for this year is 149 million. But according to all indications, this goal is unattainable. At present they are "digging" largely on enthusiasm; the state has taken the metal, but it simply has not paid.

"What is this?" the managers of the extracting enterprises asked indignantly at one of the meetings. "How can you understand authorities who take such an attitude toward the sector? It hurts. We live on gold, we are knee-deep in it, and we are in trouble."

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Yes, we have gold everywhere: in the Far North of European Russia, in the Urals, in West and East Siberia, and in the Far East, from the Amur to Chukotka. And silver and platinum? Precious stones? In short, you can find every kind of wealth in our country. The only thing that is missing is managerial ability. Instead of resolutely putting our house in order, we stretch our hand to the West like beggars: for credit, investment, even advice.

I listened to the managers of the gold extraction enterprises and the bankers—they have so many intelligent, practical ideas for increasing the extraction of gold and using it wisely in the interests of the state too. They are ready to carry out their ideas and proposals. If only the tax and other overly rigid shackles would be removed.

Formerly we cursed totalitarianism; it stifles economic initiative. This pressure no longer exists, but once again our "generals of industry" cannot develop their organizations, despite all the tiresome talk about economic freedom.

The bureaucrats are getting us used to the idea that the state treasury is always meager, but perhaps this problem is not so hopeless? Perhaps we first created the difficulties, and now we are surmounting them, as has happened before?

Inkombank President V. Vinogradov believes that the reason that Russian bankers are in no hurry to invest money in the economy, including in gold extraction, is that it is not profitable. His bank alone would search out $100-200 million for the sector, but it does not take the risk because of the authorities' tax policy and the ill-considered investment conditions. The risk is not justified.

It seems to be an obvious problem, so why isn't it being solved? After all, the more gold there is in the treasury, the fewer concerns the government has.

"The reason it is not being solved," reasoned A. Menshov, head of the Kolymazoloto [Kolyma Gold] AO [Joint-Stock Company], "is that the state has arranged to collect the metal without being responsible to the gold extractors, but it should not be that way. The good master is very careful with his beast of burden. We are giving Russia 'greenbacks,' but instead of taking care of us they have turned the gold extractors into beggars. We walk with hand extended. At best the authorities buy us off with handouts."

"If the state is unable to support us," V. Martynenko, head of the Nizhneamurzoloto [Lower Amur Gold] AO, seconded his colleague, "they should give us the opportunity to manage our output ourselves."

The gold extractors tried to get the government to give them an advance payment for future metal in the amount of 50 percent of its value. Without this money it is practically impossible to prepare for the season. Agreement was reached, cutting 25 percent off the agreed sum. As a result, preparations for the 1994 season were curtailed. The necessary gold was not extracted. It is the same this year. The situation is especially difficult at enterprises of the Far North.

Money could be attracted "from outside," of course, but there are no conditions to give investors incentive. Roskomdragmet [RF Committee on Precious Metals and Precious Stones] was just about to reach agreement with the Ministry of Finance on these very conditions, but...

The gold extractors proposed one other option: amend and supplement the tax laws. These laws are devastating the sector today. The state takes 60 percent of the metal and 90 percent of the profit.

The prospectors and enterprise collectives fuss and carry on, trying to prove something that needs no proof, but there still is no money—not for extraction, not for new equipment (wear on the equipment in use is already 70-85 percent), and not for geological surveying (remaining explored reserves will last five years).

"The attitude toward gold extraction must be changed immediately," said Krasnoshtanov, Republic of Sakha (Yakutia) minister of industry. "A new strategy in this matter is needed if we move onto the market and live by its laws."

The essential point of his proposals is to switch from extraction by the placer method to underground mining. In 1994, 120 tonnes or 91 percent of the precious metal was extracted from sands and 11.9 tonnes from ore. The underground mining method means a high level of mechanization and round-the-clock operation. It means a sharp drop in the prime cost of production and growth in the volume of extraction. It means good prospects because we have much more gold ore than gold in placers. There are some very rich veins...

So how are we to go on from here? This year, as we said, quotas were assigned for extraction of 149 tonnes of gold plus byproduct and secondary gold. The total is 162.4 tonnes. The lack of an advance payment, however, that is cutting off preparatory work for the season, makes this goal unrealistic. If the state were to pay off 500 billion rubles [R] in debts on time, everything would be different. Specialists believe there are new debts coming that will be about R3-4 trillion. The state will take all the gold extracted, naturally. There is no doubt about that.

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Perhaps extraction should be shut down? Close some of the enterprises? People in the sector are asking these questions. There are 20 enterprises that have already declared themselves insolvent. What about geological surveying? The volume of surveying is also decreasing for lack of money. In 1993 it dropped by 40 percent, and in 1994 by 60 percent, relative to 1992. Scientific research is being curtailed too.

How much writing the gold miners have done concerning their woes! How many places they have appealed to, to practically no avail!

"We need to hurry up and establish a gold market in Russia," A. Zhuravlev, president of Promstroybank [Industrial Construction Bank], believes. "The banks can buy the gold from the enterprises that the state does not. This will stabilize their work and give them a chance not only to survive but also to move forward."

Many agree with this idea, including people in the government. A "Gold Club of Russia" has even been formed, including banks who have licenses for transactions with gold and the gold extractors.

"There will be a gold market," said M. Bazhanov, president of the Gold Club of Russia, "and the precious metals sector will live on."

***Avtobank Planning To Invest in Gold Mining Enterprises**

954E1163A Moscow KOMMERSANT-DAILY in Russian 22 Jun 95 p 6

[Article by Maksim [surname illegible]: "Avtobank Is Prepared To Take Gold Mines in Hand"]

[FBIS Translated Text] **Yesterday KOMMERSANT received a report of Avtobank's intention to launch a genuine "invasion" of the gold mining industry. Although Avtobank was one of the first banks licensed for operations with precious metals, it has done virtually nothing in this market to date. Now Avtobank has begun attracting new clients—mines and other enterprises connected with gold mining—and intends to use an extensive program of credit at preferential rates for this purpose.**

Banks need new clients—and not just any clients, but promising and reliable clients. The Avtobank board was apparently guided by this principle when it was considering new fields of investment in spring this year. Bank administrators were advised to focus on gold mining. The decision to launch a program for the financing of gold mines was the result.

There were several reasons for this. First of all, the state still has a monopoly on gold mining and processing, and this is a guarantee of payment for products. Second, the bank is attracting new clients. If the bank finances gold mining operations, the mines will transfer their settlement accounts to Avtobank. At this time, incidentally, many of these enterprises use the services of branches of Promstroybank, Sberbank, Agroprombank, and local commercial banks. In addition, "Rossiyskiy Kredit" and Inkombank have begun to show more interest in this industry. Third, Avtobank intends to use gold for the creation of its own reserve and for the issuance of various financial instruments "tied" to gold. Avtobank administrators anticipate the passage of regulations allowing the physical transfer of metal across the border and the elimination of the value-added tax and special tax on gold.

According to Mikhail Vinogradov, chief of Avtobank's crediting and settlements division, the bank intends to solve one of the main problems of the industry, connected with the seasonal nature of gold mining, by issuing funds in advance to finance the start of operations. The state allocates no more than 10-15 percent of the value of output for the previous year (in spite of the demand for around 60 percent) for these purposes, and this is not enough even to maintain the current level of production.

In all, Avtobank plans to extend around 50 billion rubles in financing to gold mines this year, and the cost of this credit will be much lower than the 3-month interbank lending rate. For the improvement of banking services, Avtobank will establish a so-called "remote terminal" on the grounds of the mines, giving miners an opportunity to use their funds and request the necessary consulting services, including production advice. The bank has created a special subdivision for this purpose.

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International Affairs

*Ambassador on Polish-Ukrainian Relations

954K0650A Lvov ZA VILNU UKRAYINU in Ukrainian 11 Jul 95 p 3

[Interview with Petro Sardachuk, ambassador of Ukraine to Poland, by Volodymyr Pryadko in Warsaw; date not given: "'....And Then There Is Our Routine Work'"]

[FBIS Translated Text] **After Ukraine proclaimed independence, the first to represent the country's interests in Poland was Teodoziy Starak, temporary charge d'affaires who now serves as the embassy's counselor. He was followed by current Foreign Minister Hennadiy Udovenko and now by Petro Sardachuk, ambassador extraordinary and plenipotentiary to Poland.**

He is 57 years old, a native of Volyn, and a graduate of Lviv University. He taught, defended his dissertation in Lviv, and held Komsomol and Communist Party jobs. He graduated from the diplomatic academy of the Ministry of Foreign Affairs and worked in the Ministry of Foreign Affairs of the USSR. From 1986 to 1991, he served as the consul general of the USSR in Krakow. In 1991, Mr. Sardachuk transferred home and became head of the Consular Administration of the Ministry of Foreign Affairs of Ukraine. From 1993 to 1995 he served as Ukraine's ambassador to Slovakia. At the beginning of this year, Petro Sardachuk began his official duties as ambassador in Warsaw.

[Pryadko] Obviously, the Ukrainian community in Poland does not yet know its new ambassador?

[Sardachuk] I served in Krakow at one time, and the community in Krakow knows me very well, just as I know very many of its members. In the short period of time that I have been in Warsaw I have already met the leadership of the Association of Ukrainians in Poland, in particular Mr. Yu. Reyt. The two of us discussed the work of the association, including what we could do for this organization. Recently, I also met with the leaders of the communities in Gdansk and Krakow. I had a brief meeting during the laying of wreaths on the grave of Mykhaylo Verbytskyy in Przemysl province and was introduced to the leadership of the community in Przemysl.

[Pryadko] In other words, you will continue the excellent tradition started by the former ambassador, who travelled up and down practically the whole of Poland and is known and loved everywhere.

[Sardachuk] I regard it as my duty to continue this tradition and have a great desire to visit every Ukrainian community.

[Pryadko] You are undoubtedly well-versed in the problems that the Rusyn-Ukrainian community in Slovakia is currently experiencing. I have in mind the attempt to codify the Rusyn [Ruthenian] dialect as a separate official language. RZECZPOSPOLITA recently wrote of this.... Does this politicized movement headed by certain Rusyn leaders pose any threat to Ukraine?

[Sardachuk] We were all Rusyns at one time, but, unfortunately, this beautiful name was stolen from us. All Galicians were called Rusyns as late as the 19th century, and in fact no such designation as Ukrainian existed even in official censuses conducted in Poland during the interwar years. There were only Rusyns. That is why I say that we are all Rusyns as it were, and in this ethnographic-cultural sense there is no danger in this. The Rusyn-Ukrainians who now live on the territory of Slovakia came there from Ukrainian ethnic territories; they resettled to these lands at one time. They are not a separate people that have dwelled there from the beginning of the existence of this land.... Thus, in principle, the issue of Rusynism in this cultural-educational-religious sense should not pose any kind of threat. Unfortunately, however, this question has drawn in third parties, other forces, who would like to create a split in the Ukrainian community in Slovakia, see Zakarpattya leave the rest of Ukraine, sow discord between the Rusyns and the Lemkos who live on the territory of Poland, etc.

Thus far, they have been succeeding, because this split is being promoted by certain centers that are not even located on this continent. All this boils down to one thing—divide and conquer. For example, an action of codification of the so-called "Rusyn language" has been conducted in Slovakia. But I sincerely doubt that this language will find wide implementation in literature, culture, science.... Linguists from Kiev, Zakarpattya, Lviv, and the Presov region regard this as simply an attempt by illiterates, whom it is difficult to call scholars, to create something resembling a language. Yet today the "Rusynska Obroda" requires that this language be taught in schools. I doubt that children will want to learn this language.

[Pryadko] Allow me now to turn to Polish-Ukrainian relations. These days one frequently reads that these relations are in fact wanting. Is Ukraine not superfluous, as it were, in the European Union—Poland romance?

[Sardachuk] One cannot talk about our relations as wanting. When I presented my credentials, President Lech Walesa began the conversation by saying that we,

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the diplomats of Poland and Ukraine, face the task of making our relations more dynamic. We need to view these relations on two different planes. That of multilateral international relations, which involves the development of the general European process: matters relating to integration, European security, etc. And the second area of work, which consists of developing bilateral relations between Poland and Ukraine. With respect to the general European processes, Poland is among those countries that will obviously become integrated into European structures more rapidly than Ukraine owing to existing circumstances, including the fact that Poland is already far ahead of us in conducting reforms, privatization, and other things associated with drawing closer to European structures. For the time being, Ukraine lags behind, and therefore to talk of us joining these at the same time—obviously, this will not be possible. At the same time, you know that Poland is one of the few countries from the former socialist camp that actively supports Ukraine in the international arena in Ukraine's desire to join such international structures as the Council of Europe, the Central European Initiative, etc. In this we find complete understanding and support from Polish diplomats.

Nor can we describe our bilateral relations as wanting. There exist certain objective circumstances that hamper certain processes. In particular, you mentioned the work of the Consultative Committee to the Presidents of Ukraine and Poland. This was an excellent idea, and its practical implementation was proceeding rather well. What concrete results this work produced is another matter, but there were results. Certain objective circumstances—the election of a new president in Ukraine, certain personnel changes both in Ukraine and in Poland—made it impossible to hold the final meetings of the committee. I should tell you, however, that we are actively preparing for the next meeting. Work is under way to work out the topics to be discussed at this meeting, which is to be held on the territory of Poland. We are currently focusing our attention especially on economic cooperation. Following the meeting of the prime ministers of Ukraine and Poland, this process has become more dynamic and more productive, which the level of our trade and economic relations reflects. Relations on the regional level between various provinces and oblasts are also growing more active, and we are doing our utmost to ensure that more oblasts cooperate with Poland's provinces.

It is now possible to conduct clearing operations between our two countries based on our own national currency. Of course, these operations will entail recalculations against the exchange rate of the dollar.... There is intense work under way towards this end. It is my opinion that Poland is one of the first countries in which the best solution has been found in this respect. The problem of finding a system of clearing accounts exists in all the countries formerly belonging to the Council for Mutual Economic Assistance [CEMA].

We also have certain accomplishments in the sphere of cultural exchange. For example, an extremely interesting meeting of Polish and Ukrainian theater specialists was held this year in Krakow, at which the problems of today's Ukrainian theater were discussed. The Lviv and Kharkiv theaters performed in Krakow and Warsaw.

Talks are continuing on signing an agreement to create the Buh Euroregion. The idea of creating such transborder international associations is a very good one. To be sure, in my opinion, the Karpaty Euroregion is not yet producing the results that it should. They are already talking about creating a superstructure of representations, in which officials will produce documentation, etc. Despite having nothing practical to show for their efforts, they are already building some sort of superstructure, collecting dues to finance future officials. If Volyn Oblast, Zamosk and Chelm provinces, and Brest Oblast succeed in uniting and doing something concrete in any one or all three territories instead of merely engaging in talk, this will unquestionably be a good thing.

[Pryadko] Poland now has a new foreign minister. Should we expect any changes, in particular in relations with Ukraine?

[Sardachuk] This is a question that you need to ask him directly. I have held talks with Polish Deputy Foreign Minister A. Towpik and with Mr. Jerzy Bar, the director of the Europe-2 Department, who is concerned with matters related to Polish-Ukrainian relations. Both have confirmed that the policy towards Ukraine will remain unchanged, except that as President Walesa has stated, we need to make our relations more dynamic, perhaps making some adjustments that are dictated by life itself.

[Pryadko] I can see that there is a lot of work and many plans for the future.

[Sardachuk] Our principal goal is to do everything we can to ensure the best possible relations between Poland and Ukraine in the economic, political, humanitarian, and cultural spheres, as well as in the sphere of relations between people. All the grounds for this exist, as well as a desire on the part of both sides, and this is the end towards we need to work. We need to work to create the necessary treaty and legal foundation for our relations, work to implement practical steps in order to materialize our economic relations: to create joint ventures, make reciprocal investments, exchange technologies and our experience in industry and agriculture.... And then

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there is our routine work, entailing adjustments and development, coordination and taking into account the situation in Europe, on the territory of the former Soviet Union, and in the countries of today's Commonwealth. Let me emphasize once again—we intend to do our utmost to ensure that the process of Ukrainian-Polish understanding follow the correct course. Unless such understanding exists, it will be difficult for us to talk about expanding cooperation and developing good-neighbor relations between our two peoples.

National Affairs

Administration Balance of Forces Analyzed

954F2884A Kiev NEZAVISIMOST in Russian 19 Jul 95 pp 4-5

[Article by Vyacheslav Pikhovshek, Ukrainian Independent Center for Political Studies: "Who is Who in the Corridors of Power"]

[FBIS Translated Text] **The latest cadre reorganization in the supreme echelons of state power necessitate the presentation of a new appraisal of the distribution of forces which has been formulated there at the given moment.**

The simultaneous strengthening of the positions of Vladimir Gorbulin and Yevgeniy Marchuk makes senseless the already rather conditional division of the president's administration into the Kiev and Dniepropetrovsk groups, the presence of which Cabinet of Ministers Minister V. Pustovoytenko once acknowledged in one of his interviews. Perhaps today the description of the presidential command as an association of several (at least four) groups, not having clearly delineated boundaries, mutually intersecting and mutually influencing each other, would be closer to the truth. As a result, "at the output," the president's decision at times becomes formulated into a somewhat unexpected result.

There has been an acute strengthening of the "Dneipropetrovsk group." On 9 March 1995, Vladimir Yatsuba, the former first secretary of the Dniepropetrovsk party gorkom [city committee], moved to the position held by the deputy head of administration of the President of Ukraine, D. Tabachnik, and today controls a significant part of the decisions which are made. Vasiliy Kremen, doctor of philosophical sciences, who in 1986 worked as an instructor and sector chief of the CPSU Central Committee Department of Science and Educational Institutions, and in 1991-92 as deputy director of the Institute of Socio-Political Studies of the Russian Academy of Sciences, came to the position of head of the Humanitarian Service of the President of Ukraine, controlled by V. Gorbulin at the Institute of Strategic Studies. In the opinion of observers, today Vladimir Gorbulin is to a large degree able to balance out the influence of the head of the president's administration, D. Tabachnik. However, up until the present time, aspirants to various positions in the Council for National Security are still approved by Dmitriy Tabachnik.

All these circumstances cannot better characterize the style of work of L. Kuchma—the President of Ukraine who, as one of his closest associates from "Yuzhmash" who today occupies a very high post in the Ukrainian political establishment affirms, differs little from the style of work of L. Kuchma the director: To obtain a proposal from a group or individual generating ideas, to sound this proposal out on various groups as an anonymous point of view; After receiving the response reaction, to sound it out on the initial generator, and then already on the proposal, and to persistently, stubbornly and willfully bring the conception to life. Therefore, the assumption that the only real player in the president's administration is President L. Kuchma himself, who manages to rely on four groups at once, groups whose interests by far do not always coincide, upon comprehensive analysis does not seem to be a gross exaggeration.

STRICT VERTICAL OF EXECUTIVE POWER

Recently, the name of Vladimir Pavlovich Gorbulin has appeared ever more frequently in the mass media and in the discussions of political scientists engaging in a study of the problems of supreme state power in Ukraine. The secretary of the Council for National Security of Ukraine (SNB) is the president's advisor on questions of national security. He has been working his way toward this position for many years, and not by the most direct path. Today he holds in his hands powers and authorities which, without great exaggeration, may be called rather significant, and in a functional sense—quite sufficient to influence decision-making at the highest level.

In his book, "Stellar Attraction," V. Gorbulin expressed his own life credo as follows: "At the basis of many achievements there lies the baggage... of knowledge, joined with the ability to generalize objective tendencies of development of new directions..., choose among them the most promising ones and justify the choice..., and, no less important, to take responsibility for the adopted decision." Those who knew him as a work associate agree in the appraisal: This is a man of rare work ability, skillfully accumulating the fruits of work of several groups to achieve a non-trivial result. Up until recently, V. Gorbulin's political activity was

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hardly visible to the community, with the exception of rare television and newspaper interviews. Nevertheless, the man whose competence includes provision of the national security of Ukraine acts and, judging by all, acts rather decisively.

An analysis of the activity of the SNB secretary and presidential advisor V. Gorbulin, as well as, we might add, of much of what goes on in the Administration of the President of Ukraine, is not reduced merely to shades of black and white. It is necessary to consider the palliative nature of numerous decisions and the incomplete nature of their realization. Moreover, every adopted high-level decision is to one degree or another the result of compromise between the existing groups of influence or, as this happened with the presidential edict, "On Currency Regulation," an example of how one group manages to defend its interests at the expense of another. In any case, it is extremely important to trace the effect of this mechanism, since it largely determines how the political situation in Ukraine will develop in the near future and in the long-term perspective.

There is nothing remarkable in the fact that, for persons responsible for certain directions in the president's administration and in the government, it is often profitable to present specifically themselves in the winning role of generators of ideas. Practically all of them are in a state of competition with each other, forming tactical blocks and considering the temporary coincidence or divergence of mutual interests. The described situation is interesting also in the manner by which L. Kuchma builds relations with the "hemispheres" of the presidential administration and the government, how he divides responsibility between the groups of SNB Chairman Vladimir Gorbulin, Prime Minister Yevgeniy Marchuk, Presidential Head of Administration Dmitriy Tabachnik and First Assistant to the President Aleksandr Razumkov.

PARALLEL ASCENT

Unlike numerous members of the administration of Leonid Kuchma, whose political star rose not too long ago, 56-year old Vladimir Gorbulin came to his current position via the classical route and, consequently, he is stronger in the apparatus game. A doctor of technical sciences, he was at one time awarded the USSR State Price. Having worked 14 years as scientific associate at "Yuzhmash," he took part in the development of the "Kosmos" series spacecraft and strategic missile systems. In 1975-1976 he served as deputy secretary of the party committee of the "Yuzhnoye" KB [design buro] in the partkom [party committee] of Leonid Kuchma.

The press noted the "crossing" of paths of the president and the current secretary of the Council for National Security, and pointed out the close relations which had been formulated between them for years. It is known that V. Gorbulin had occasion to come to the aid of L. Kuchma also in matters which did not directly concern production-party questions. However, the tie between Gorbulin-Kuchma becomes more complete with the introduction of a third personage—Vasiliy Dmitriyevich Kryuchkov. All of them were graduates of the same engineering-technical faculty of DGU [Dnepropetrovsk State University] (L. Kuchma - class of 1960, V. Gorbulin - class of 1962, and V. Kryuchkov - class of 1967, although from the correspondence section, whose educational training is not considered to be very prestigious among missile developers), and all went through "Yuzhmash."

The "Yuzhmash" lobby, as well as that of Dnepropetrovsk in general, has always been rather strong in Kiev. Vladimir Shcherbitskiy gave the "Dnepropetrovsk representatives" many key posts in the party central committee. Even now, in 1995, many important posts in the capital's establishment—governmental, apparatus, parliamentary, law enforcement agencies, military, banking, judicial organs, and even church circles—are occupied, according to the most conservative estimates, by 64 persons originally from Dnepropetrovsk.

From 1969 through 1973, Vasiliy Kryuchkov headed the "Yuzhmash" partkom, and then, from 1974, he was in charge of the defense industry section of the CPU [Communist Party of Ukraine] Central Committee. In 1977, V. Gorbulin transferred to work in the apparatus of the CPU Central Committee, in 1980 assuming the position of head of the sector of missile-space and aviation technology in the department headed by V. Kryuchkov. The intense rhythm of work which missile developer Vladimir Gorbulin brought with him from the defense industry was never considered generally accepted at the CPU Central Committee, and the fact remains that in the years of V. Gorbulin's work in the party central committee, not a single complaint was filed against him with the "higher party organs." For those familiar with the morals which reigned supreme in the party organs in the recent past, this says a lot.

Vasiliy Kryuchkov was secretary of the CPU Central Committee when, on 28 October 1986, the CPU Central Committee Politburo, by its decree, included into its nomenclature the position of general director of the production association "Southern Machine Building Plant imeni L. I. Brezhnev" and the first deputy general designer and the general director of the scientific-production association "Yuzhnoye." Moreover, it decided "to adopt the proposal of the Dnepropetrovsk

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obkom [oblast committee] of the Communist Party of Ukraine and the Ministry of General Machine Building on ratifying as general director of the production association 'Southern Machine Building Plant'—the first deputy general designer and general director of the scientific-production association 'Yuzhnoye,' Comrade L. D. Kuchma."

With the onset of perestroyka, the "missile men" did not immediately develop methods of political protection of their interests. Candidate member of the CPU Central Committee Politburo V. Kryuchkov was elected candidate member of the CPSU Central Committee, and later served as chairman of the Subcommittee on Questions of the Military-Industrial Complex and Conversion of the Armed Forces of Ukraine. V. Gorbulin, in the Cabinet of Ministers, was the deputy head of the Department of the Defense Complex, Communications and Machine Building, and L. Kuchma served as people's deputy and member of the Supreme Soviet Commission on Questions of National Security. Then Vladimir Gorbulin occupied the post of general director of the National Space Agency of Ukraine (NSA of Ukraine), created by decree of Leonid Kravchuk on 29 February 1992, while shortly thereafter Leonid Kuchma became the head of the Ukrainian government.

According to the testimony of informed sources, the very idea of creating the NSA of Ukraine belonged to V. Gorbulin. It was not that L. Kravchuk, having signed the Edict on Creation of the NSA of Ukraine, simply did not risk battling with the ever-powerful "Dnepropetrovsk representatives." It was just that, except for Vladimir Gorbulin, there was practically no one to whom the matter of the Ukrainian space program could be entrusted.

AFTER VICTORY

There is good reason to believe that the victory of L. Kuchma at the presidential elections was not unexpected for V. Gorbulin. However, it was demonstrated to outside observers: The primary efforts of the general director of the NSA of Ukraine, up to May-June of 1994, were concentrated on the development of Western markets for Ukrainian space production. In this connection, we will note that "Ukraine intends to participate in the international tender on the use of booster rockets for realization of the 'Global-Star' satellite communications project implemented by the American 'Space Systems' corporation."

Vladimir Gorbulin's role in Leonid Kuchma's electoral campaign, according to the data of a well-informed sourse, was rather significant. This explains why, immediately after the elections, V. Gorbulin was included in the rather limited circle of individuals (3-5 persons) directly influencing the president's adoption of decisions on various questions. Then on 21 July of last year, the head of L. Kuchma's election staff, Valeriy Pustovoytenko, as well as Deputy Chairman of the Goskomizdat [State Committee on Publication] of Ukraine Dmitriy Tabachnik, became minister of the Cabinet of Ministers and head of administration of the President of Ukraine, respectively.

The growth of Vladimir Gorbulin's political influence during the presidency of Leonid Kuchma may be conditionally divided into three stages. The first was in July-August of last year. The president signed the first documents concerning the spheres of provision of the national security of Ukraine. They appeared only on 23 August 1994, but passed as first priority.

The second stage was in October-November of 1994, when Vladimir Gorbulin sharply intensified his positions on several political directions at once. As of 10 December, the president subordinated the National Institute on Strategic Studies to the SNB. On 17 October, V. Gorbulin was appointed secretary of the Council for National Security under the President of Ukraine and advisor to the President of Ukraine on questions of national security, and on 22 October the Edict on Members of the Presidium of the Council for National Security under the President of Ukraine was published, citing the name of V. Gorbulin.

The third stage was from December 1994 to February 1995, when Vladimir Gorbulin in fact became the "president's right hand." In December, the Commission on Questions of Nuclear Policy and Ecological Security was placed under the subordination of the SNB, and the SNB was defined as the contractor in creating the Situational Center, which we will speak of in more detail later. The president assigned Vladimir Pavlovich the task of preparing crucial decisions, for example proposals on developing the structure of economic management, on reforming the Cabinet of Ministers (the competency of the acting premier and minister of the Cabinet of Ministers), and on the prospects for development of the military-industrial complex of Ukraine (competence of Vice-Premier V. Shmarov). V. Gorbulin's sphere of activity began to include key moments in the reformation of the economy and state power, international relations, foreign investments and, of course, national security.

UKRAINIAN CREDIT FUND AND THE "UKRAINE" FUND

The last months of L. Kravchuk's rule were characterized by the persistent movement of Ukraine toward a financial-oligarchic order. Simply speaking, a certain caste of very rich people was being formed, people who

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got along marvelously with each other as well as with the industrial director, people who believed that Ukraine was their property, and who held small sums of currency in Ukrainian banks (frequently "glass banks") and larger sums—in fully insured accounts in Western banks.

It is difficult to say whether the management of the Ukrainian Credit Fund (UCF), which received certain notoriety as a result of the scandal with the State Commodity Bonds, belonged to this circle of people. The UCF was created on 18 March 1994 by edict of President L. Kravchuk, and K. Prodan and V. Shmelev were placed at the helm of the fund. Konstantin Prodan was not a dilettante in politics. His last party position was as manager of affairs of the CPU Central Committee. On 8 July, on the eve of the elections for President of Ukraine, V. Shmelev was dismissed from the position which he occupied by edict of L. Kravchuk, and K. Prodan became the president of the UCF.

Most likely, it was specifically the parallelism of existence of the UCF and the Agency for International Cooperation and Investments, created for the realization of similar purposes back on 2 March 1993 by decree of the Cabinet of Ministers and signed by L. Kuchma and V. Pustovoytenko, which dictated President L. Kuchma's next step, and not some other reasons. Following the well-known announcement by Ukraine Supreme Soviet Deputy A. Kvyatkovskiy to the effect that "the funds of the UCF are accumulating in one of the Zurich banks," on 10 December 1994 he issued the Edict on Liquidation of the UCF, with subsequent investigation of its activity by the power departments. Especially, since the UCF had "lost control" over 10 securities for an overall sum of $2.5 billion U.S.

There is also another explanation for what happened with the UCF, based on the fact that one of its founders was "Prominvestbank" of Ukraine, which is headed by the former chairman of the board of the National Bank of Ukraine, V. P. Matviyenko, who in 1978 was the manager of the Dnepropetrovsk Oblast branch of the USSR Stroybank [Construction Bank]. This bank also had UCF accounts. It is also rather interesting that "Prominvestbank" became one of the founders of the Fund for Business Cooperation "Ukraine" (FDS "Ukraine"), founded by the Edict of the President of 19 November of last year for the implementation of tasks "on creating an effective mechanism of interaction of the state and private sectors of the economy... support of innovative programs," and so forth. Some observers are inclined to see a direct connection between the closure of the UCF and the start of activity of the Fund for Business Cooperation "Ukraine."

At first glance, the spheres of activity of the UCF and the "Ukraine" Fund thematically intersect only in one aspect: In point 6 of the statute on the FDS "Ukraine" it is stated that "the Fund... establishes direct business contacts and relations with foreign partners for the purpose of attracting progressive technologies and foreign investments to Ukraine."

Moreover, one need not have much imagination to figure out what real influence the formulation of the situation surrounding foreign investments the fund created by the presidential edict could have. Moreover, unlike the rather rough formulations contained in the Statute on the UCF, the style of the Statute on the FDS "Ukraine" is distinguished by a certain elegance. For example, the formulation of the significant distinction of the activity of FDS "Ukraine" from the activity of the UCF consists of the fact that, according to L. Kuchma's Edict on the FDS "Ukraine," "...the Fund is exempted from payment of taxes, fees and other mandatory payments to the budget and from contributions to the state target funds; Revenues received by the Fund in foreign currency are not subject to mandatory sale, and the taxable income (profits, revenue from sales) is reduced by the sum introduced by a subject of entrepreneural activity into the Fund (without limit), under the condition that the Fund uses these revenues for charitable purposes..."

Such highly preferential conditions of existence for the Fund draw attention to themselves in one other case—in the creation of the Fund for Support of Studies in the Sphere of National Security. It so happened that, by decision of the president, the Oversight Council of the Fund for Business Cooperation "Ukraine" and the Council of Experts of the Fund for Support of Studies in the Sphere of National Security were both headed by Vladimir Gorbulin.

COUNCIL FOR NATIONAL SECURITY

In his inaugural speech, President Kuchma emphasized his intention "to create a strict vertical of executive power based on lawful principles." There were already hints of autocracy of the new president in the air, and the regularly accurate references by members of his command to Pinochet and to the need for strong authority underscored the impression of "strictness" of Leonid Kuchma's style of rule. At the same time, that part of such statements which contained an important, although somewhat "vague" formulation—"...on lawful principles"—was overlooked.

Nevertheless, in the situations which were encountered time and time again, when one set of laws would contradict another, and all of them together would contradict the constitution, this expression appears to be

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almost the key one. Specifically, the persistent pressure on the Supreme Soviet for the purpose of adopting the president's draft of the "Law on Power" is nothing other than an effort to somehow sort out responsibility in the state, the limits of competency of the legislative, judicial and executive branches, and the rights of the center and the regions. In other words, to define what the formulation, "on lawful principles," actually means.

Then again, there are already examples of how skillfully President L. Kuchma interprets the existing laws in his own favor, categorically rejecting on 4 February, for example, the persistent proposals by the communist opposition to occupy the chair of the head of government. The presidents argumentation here can hardly be called irreproachable: Leonid Kuchma has called the decision of the Supreme Soviet Presidium on its review of the question of no confidence in the government "incorrect," due to its "untimeliness." According to him, "first of all it is necessary to review the law on power, which provides that the president shall appoint the Cabinet of Ministers." It is interesting that the actions of the communists in their desire to place responsibility for the results of the government's activity on the president are very reminiscent of the statements of V. Chornovol addressed to Leonid Kravchuk 2 years ago.

The reasons for L. Kuchma's statements regarding his unwillingness to directly head up the Cabinet of Ministers belie, more probably, a banal apprehension of finding himself at the extreme in the current sad economic situation. Moreover, the president is succesfully making use of the contradictions arising from the mutual inconsistencies between Article 114-1, which states that he is the head of executive power, and 114-5, p. 6 of the Constitution of Ukraine, which states that the president shall submit the candidacy of the prime minister for review of parliament.

There is every reason to believe that "the strict vertical of executive power," and already fully "based on a lawful principle," has found its embodiment in the President of Ukraine granting certain, rather indicative, functions to the Council for National Security of Ukraine. Moreover, formally there is no violation. In a discussion with an opponent, reference may be made to Article 114-5, p 7.1 of the effective Constitution of Ukraine, which states: The president, "in order to ensure fulfillment of the Constitution and the laws of Ukraine, creates, reorganizes and liquidates ministries, departments and other organs of state executive power within the limits of the budget funds approved by the Supreme Soviet of Ukraine." That is, until the president exceeds the limitations of the budget, he can in fact organize those structures which he deems necessary.

The Temporary Statute on the SNB, ratified by L. Kravchuk on 3 July 1992, stated: "The Council for National Security of Ukraine (henceforth—Council) is a consultative-deliberative organ within the system of state executive power under the President of Ukraine." On 23 August 1994, President L. Kuchma ratified a new Statute on the Council for National Security of Ukraine.

Its most significant difference, worthy of the closest attention and of key importance in understanding the true role of the SNB of the times of L. Kuchma, lies in Point 5 of the Statute: "...the decisions of the Council and its presidium are mandatory for fulfillment by the organs of state executive power." This point immediately gives rise to a number of questions: Why, for example, is it necessary to make special reference to this "responsibility," when the decisions of the president, according to Article 114-6 of the constitution, are already "mandatory for fulfillment throughout the entire territory of Ukraine?" What sense is there in duplicating the constitution?

Obviously, granting the right of decision-making to the SNB and its presidium is necessary for a normally functioning state. If emergency situations should arise, there must be a mechanism of effective decision-making, the presence of which is provided by legislation of all civilized countries of the world. However, in order to eliminate any misunderstandings surrounding the SNB, it is not excessive to clearly define the situation in which the Council gets the right to make independent decisions, and in which cases it must remain merely a consultative organ under the President of Ukraine.

We will note also that the very existence of the SNB compensates in some measure the absence of a "Law on Power." We know that the president does not have the right to issue edicts on questions regulated by the laws adopted at one time by the Supreme Soviet. However, such limitations are not specified for the SNB. The general economic crisis in Ukraine, the toughening of Russian policy, the echos of the armed conflicts in Yugoslavia and Chechnya, the threat of internal strikes and even the existing problems in the tax relations between the regions and the Center—all these factors may in a certain situation be interpreted as a real and direct threat to the national security of Ukraine, and this means also as a reason for the SNB to manifest its activity.

The day-to-day work of the SNB and its presidium is managed by the secretary of the Council for National Security under the President of Ukraine—the advisor to the President of Ukraine on questions of national security, Vladimir Gorbulin.

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SITUATIONAL CENTER

On 10 December 1994, by edict of President Leonid Kuchma, the Commission on Questions of Nuclear Policy was subordinated to the SNB. The Council is defined as the contractor in the development of the Situational Center. As it is stated, this decision is adopted "for the purpose of increasing the effectiveness of work of the structures created under the President of Ukraine on questions of nuclear policy and situational management."

The statute on the goals and functions of the Situational Center has not been published, and for this reason it is still difficult to judge what tasks the current President of Ukraine has placed before this structure. According to certain reports and the standard documents, the discussion centers around a technical analytical structure, which will allow the President of Ukraine to possess the necessary independent information and a set of variants of decisions, which gives him the opportunity to make decisions independently, ideally ensuring the timeliness, specificity and purposefulness of such decisions. This is clearly a rather effective structure, which by its technological content and completeness of information may become the more powerful in Ukraine. On 10 December 1994, the Situational Center of the President of Ukraine was subordinated to the Council for National Security of Ukraine, which is headed by SNB Secretary V. Gorbulin and which "adopts decisions mandatory for fulfillment by all organs of state power."

VLADIMIR GORBULIN AND YEVGENIY MARCHUK

And so, the concentration of power in the hands of V. Gorbulin is a reality which we cannot overlook, just as we cannot overlook the presence of certain problematic instances in the Statute on the Council for National Security. These facts, ultimately, must lead to an answer to the question: What does all this really mean? For what purpose may power be used?

V. Gorbulin is, as they say, really a tireless man. His apparatus upbringing has raised a type of person for whom the capacity to work arduously and intensively while retaining his composure was a necessary characteristic. We also cannot doubt Vladimir Pavlovich's many years of personal devotion to the president. Based on these facts, the current secretary of the Council for National Security fits very well into the principles of the "strict executive vertical" being cultivated by L. Kuchma, although this vertical does not always mean a normal life in the common understanding of this word. Then again, other leaders are also hard-working, composed and energetic.

Therefore, an examination of V. Gorbulin's activity would certainly be incomplete without an analysis of another, no less strong, leader. This is Yevgeniy Kirillovich Marchuk, the former chairman of the Security Service of Ukraine.

The history of relations between Ye. Marchuk and L. Kuchma is not as long as the story of joint work association of V. Gorbulin and L. Kushma. Its inception may be counted from 24 March 1991, when L. Kuchma became a member of the Supreme Soviet Commission on Questions of Defense and State Security.

Many of those who worked previously with Ye. Marchuk in the SNB of L. Kravchuk's time note that he is an adherent of the non-public, "quiet" method of resolving acute political questions. Specifically, as he calls it, "laboratory analysis." This, we might add, was admitted also by Yevgeniy Kirillovich himself, in the course of his analysis of the problem of Crimea in one of his publications which appeared in the press.

The "unwinding" of this political leader's activity dates back to October of last year, when he headed up the work group on Crimea created by the President of Ukraine.

Many observers who analyzed the development of relations between V. Gorbulin and Ye. Marchuk note as an undoubted plus of Ye. Marchuk his extensive experience in work with large-scale systems. This conclusion may be confirmed to a certain degree already by the fact that Ye. Marchuk headed up a state structure which had a large number of employees and, consequently, has considerable experience in work on managing such systems. Other observers note the fact that, on 22 October 1994, by edict of the president, Vladimir Gorbulin was appointed chairman of the Expert Council on the Newly Created Fund for Support of Studies in the Sphere of National Security, and Ye. Marchuk—as chairman of the Oversight Council of this Fund. Already then it became clear: The process of balancing powers and authorities between V. Gorbulin and Ye. Marchuk had entered a certain phase of determinacy.

It is entirely evident that Ye. Marchuk and V. Gorbulin have managed to become necessary to the president, primarily thanks to all they learned in their previous work. Moreover, Ye. Marchuk and V. Gorbulin are joined together by one circumstance: Both of them did not always win, both had moments of ascent and of relative failure. However, to evaluate their relations simply as some sort of competition or struggle for influence over the president's policy, it seems, would be a rather great oversimplification.

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Economic Issues

*Government Documents on Nuclear, Radiation Safety Viewed

954E1150A Moscow IZVESTIYA in Russian 1 Jul 95 p 5

[Article by Yelena Sokolovskaya: "Chernobyl Roulette—New Documents on the Well-Known Tragedy"]

[FBIS Translated Text] Two very interesting documents have fallen into my hands. Although they were not stamped "Secret," they plainly were not intended for journalists. The documents testify to the near-disastrous state of the "peaceful atom" in Ukraine. It seems that this is not just an internal problem of this country, which has overloaded itself with AES's [atomic power plants]; the inhabitants of adjacent regions also have a right to know what is happening at Chernobyl and around it.

Disasters Which Were Not Expected

The document entitled "Nuclear and Radiation Safety in Ukraine: Condition and Problems" was prepared by the Ukrainian State Committee on Nuclear and Radiation Safety for first vice premier V. Shmarov. This paper can describe the current dangerous "moods" of the Ukrainian AES's incomparably better than fancy newspaper writing.

There are five AES's in operation in the country today: Rovno, Zaporozhye, Khmelnitskiy, South Ukraine, and Chernobyl. According to the information in the document, there have been "125 violations in their operation" in just the last 10 months. The most dangerous was Zaporozhye (57 violations), and the least harmful was Chernobyl ("only" 13). AES personnel with their "unsatisfactory organization of management and attitude toward safety problems" were declared to blame for the extremely unpleasant occurrences.

However, in addition to the "human factor," which it has become fashionable to complain about, "objective difficulties" were observed: "All the Ukrainian units were designed in the 1960s and 1970s. Their common shortcoming is poor quality equipment." Work to rebuild the equipment is being curtailed "because of financial problems."

The operating unit No 1 at Chernobyl is especially picturesque here; it is so outdated that reconstruction of it "may not have the desired results."

Meanwhile the Chernobyl AES has already bestowed on Ukraine 95 percent of all the radioactive waste in its territory. The sarcophagus that was hastily built over unit No 4 proved to be a weak antiradiation shield. And in the spring Ukraine was unexpectedly shaken by the news that the sarcophagus was "falling to pieces," had cracked, and next thing you know would crumble like a play house. Vladimir Kholosha, acting Ukrainian minister of Chernobyl, told me that about 180 tonnes of radioactive material is "fermenting" inside the fourth generating unit. Particles seep through the cracks and are carried off by the wind to Kiev, Zhitomir, Belorussia, and Russia. The radioactive repositories of Chernobyl have delivered one more surprise. It is amazing but, according to the testimony of the document, there is no "reliable information on the amount of radioactive waste gathered here or its physical and chemical properties, which makes it harder to seal it off." It is hard to call them real storage units—they are trenches (2 meters by 4) covered with a 1-meter layer of earth and "do not have special protective barriers."

Being undermined by groundwater, 300,000 cubic meters of radioactive waste gathered here is creeping away into the ground. "In the coming years," Yuriy Kostenko, minister of environmental protection and nuclear safety, tells me, "this waste must be dug up, sorted, and put into new storage facilities. There will be a long-term repository for medium-activity products of the accident in the Chernobyl zone. We will have to find another, safer place for the highly active waste."

The search for this place has now become the headache of the Ministry of Environmental Protection and Nuclear Safety, the State Committee for Atomic Energy, and the Ministry of Chernobyl of Ukraine. As the document "Nuclear and Radiation Safety" illustrates, by the time of the accident last year more than 14,700 assemblies with spent nuclear fuel had been accumulated at the Chernobyl AES, and about 3,250 at the other Ukrainian AES's. It is hard to ship them to Russia as was done in Soviet times—there is no money for it.

Nuclear power people sounded the alarm: the storage facilities at the plant are overfull and not entirely reliable. And at this point their attention turned to the West and a brilliantly simple idea arose: if the Big Seven countries are so afraid of the Chernobyl evil, want to close the Chernobyl AES, and would just as soon forget about the terrible accident—let them pay for it. Let them finance the burial of the old waste, construction of new plants, and so on. And if they refuse—we can show the West again where our Chernobyl cancers spend the winter.

Where Do the Chernobyl Cancers Spend the Winter?

The first Ukrainian president, Leonid Kravchuk, started the game of Chernobyl roulette. Writing up promises to the West to close the Chernobyl AES quickly with one

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hand, with the other he was quietly luring money from donor countries to compensate Ukraine for the loss of the plant. He was not able to get much, it is true, but it was a start.

The promise to close the Chernobyl AES by the year 2000 was not made without thought. Experts calculated that if the plant worked just 25-30 more years Ukraine would receive 2.72 billion dollars of profit and would be able to replenish its budget and build a shelter for unit No 4. If the plant were shut down by the beginning of the millennium as the Big Seven want, the country would lose this money. They offered the West a choice: either give Ukraine 4.5 billion dollars to close Chernobyl and build a new plant with the capacity to replace it and solve the social problems associated with this, or the country would keep the Chernobyl AES in operation and the West could look after its own interests.

Having set forth its thoughts on this in the document entitled "Proposals on Replacement of the Capacities of the Chernobyl AES," Ukraine sent them to Halifax for examination by the Big Seven. These semi-secret papers speak of the need to build a new power plant near Chernobyl, a steam-gas plant capable of supplying Ukraine with the same 3,000 kilowatts provided by the Chernobyl AES. The old units would be shut down concurrently with construction of the new ones. And if the Big Seven accept the Ukrainian conditions, Chernobyl unit No 1 would already shut down in 1998, then No 2 in 2000, and No 3 in 2011. Then the world would probably be able to breathe easy and forget about Chernobyl.

This is what they fear most in Ukraine. As experts developing the "Proposals" related, "Chernobyl is above all a political problem. Replacing it with a steam-gas plant, not a new nuclear plant, was the West's initiative. Having received a plant operating on gas and not having its own fuel, the state with its shaky economy would be tied to imported energy sources, and therefore it would be more vulnerable."

According to the "Proposals" and the conclusions of the experts, Ukraine demanded 2 billion dollars for construction of the new plant. Ukraine would like to receive at least 500 million this year "for starters." It is planned to use the rest of the needed 4.5 billion to erect the shelter, to decontaminate and dismantle the equipment of the Chernobyl AES, and for the "social sphere."

The aid which is being promised to Ukraine will not be given outright, but rather in the form of loans which will have to be repaid with interest after a few years. A small sum, about 400 million dollars, may possibly be allocated for construction of a radiation-tight shelter.

Over the space of 10 years the Big Seven countries promise to compensate Ukraine for the difference in price between purchases of nuclear fuel and Russian gas. What happens after that is unknown. Ukraine's present debt for Russian and Turkmen energy sources has reached 4 billion dollars and continues to grow. And it will hardly be possible to repay it in the near future.

A Ringing Silence

The quiet hung heavy in the town of Plekhov, 11 kilometers from Slavutich, where there used to be a military airfield. In the summer men from the kolkhozes appear here and use the land for hayfields. The Dniepr, the small Pakulka and Vertech rivers, and an unnamed stream are right nearby. This bounty is not for long. Soon the land will be trampled by the six units of the new imported steam-gas plant. The rivers will come under "industrial water withdrawal" and the plain will be dissected by open cut mines where the builders will get sand and clay. The 100-meter reinforced concrete stack will start smoking everywhere, spewing carbon monoxide, nitrous oxides, and combustion products toward Russia and Belorussia.

The "Proposals on Replacement of the Capacities of the Chernobyl AES" states that the possible harmful discharges are not dangerous, that they will not exceed set norms, and that after decontamination the water used by the plant will differ little from Dniepr water. I was told in practically all the high offices involved in the program to shut down Chernobyl, "The Chernobyl AES must be shut down now, while we are being offered the money for it. Later on it will be too late."

But already today it is no secret for competent sources that the West considers the 4.5 billion dollars demanded by Ukraine to be too large a sacrifice.

The Law Was Not Written for Chernobyl

Ukraine is spending 50 million dollars a year now to keep the Chernobyl zone "in order." Other post-accident problems cost 1 billion dollars. It would be extremely desirable and helpful for the frail Ukrainian budget to get rid of this burden and pass it on to Western shoulders. This is how Ukrainian government officials today like to figure.

"It is no accident that other countries are trembling at our peaceful atom," one of the experts told me. "The number of mishaps at the plants speaks for itself. But people in Ukraine take a casual attitude toward troubles at the AES's, as something self-evident. The response in the document 'Nuclear and Radiation Safety' is: 'Existing norms and rules on nuclear and radiation safety in

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many respects do not correspond to requirements established in the world. To a significant degree they contradict the recommendations of international organizations and have become an obstacle to increasing the level of safety.'"

It turns out that the law was not written for Chernobyls. And specialists now are having a hard time trying to guess: if Ukraine receives money from the Big Seven, will they change anything or will it continue to be necessary to live "in security."

Minister Outlines Administrative Approach

954K0652A Kiev URYADOVYY KURYER in Ukrainian 18 Jul 95 p 3

[Interview with A.K. Kinakh, deputy prime minister for industrial policy issues, by Iryna Nahrebetska, URYADOVYY KURYER editor of the department of state organizational development, under the rubric "We Introduce the New Government of Ukraine"; in Kinakh's office in Kiev; date not given: "Anatoliy Kinakh: 'The Vertical Chain of Command Begins at the Top'"]

[FBIS Translated Text] **Capricious fate has taken people with the most diverse professions and managers of different ranks from various fields of activity to the highest offices of power in the monumental building of the Cabinet of Ministers which crowns one of the Pechery hills of the capital city. A recent head of an oblast council who, in addition, served as a representative of the president of Ukraine in a southern oblast (Nikolayev Oblast) and is also a naval architect by profession, may be represented for the first time in our state's history in the current makeup of our government which is still being formed. The age of the new leader also appears attractive: He is 40.**

This is about A.K. Kinakh, deputy prime minister for industrial policy issues, who was appointed to this high office by President of Ukraine Leonid Kuchma by order No. 512, dated 3 July 1995.

Iryna Nahrebetska, URYADOVYY KURYER editor of the department of state organizational development, touched on three sets of issues in a conversation with him. Here is the first interview to a government newspaper given by Anatoliy Kyrylovych Kinakh in his position as deputy prime minister.

[Nahrebetska] Anatoliy Kyrylovych, on occasion we happen to regret that the newspaper lives only one day. I mean the fact that at one time URYADOVYY KURYER introduced you as the first representative of the president of our state in Nikolayev Oblast. Subsequently, we interviewed Kinakh as the head of the oblast council who got the votes of a majority of residents of the oblast. Finally, we meet with you on the sixth floor in the building of the Cabinet of Ministers with a new sign on the door of the office: "A. Kinakh, deputy prime minister for industrial policy issues." Once again, let us begin with personal things in order to keep the broader readership informed....

A Profession for a Lifetime

[Nahrebetska] I remember your words spoken at our previous meetings: "Throughout my life, I have been lucky to have teachers; people have happened to be around from whom I could learn and borrow something for myself, and seek advice in a time of hardship..." Have you not had good luck?

[Kinakh] Indeed, on this score, which I am convinced is the key and crucial one, I have been lucky. My father was a worker and my mother a kolkhoz farmer; there was only one cult in our family, that of diligent work. As a young man I went to Leningrad to study shipbuilding. I graduated from a vocational school and learned the taste of a slice of bread earned with my own hands amid the wise shipyard workers of St. Petersburg, in a work team which was building the first nuclear-powered vessel.

Then came college, the diploma of a naval architect, one in a cherished and beloved profession which you choose once, but for a lifetime. At Okean in Nikolayev, I started out as a foreman and went on to become a senior foreman and, finally, the chief of production at the plant. For those who do not know it I will say that Okean is a huge plant where almost 10,000 shipbuilders work, almost an entire city. Giant vessels, a pride of our state which we have now undeservedly forgotten, roll off its building berths. Incidentally, the shipbuilders of Nikolayev Oblast have generated an 18-percent increment in output this year.

In 1990, my colleagues from work nominated me as a candidate people's deputy of Ukraine; the voters supported me. Two years later, it was suggested that I head the oblast state administration. This is how I became a public servant.

[Nahrebetska] Last year's elections to councils at all levels became a serious test of your efforts in the position of the top official in the oblast. It appears that getting 70 percent of the vote was quite convincing.

[Kinakh] We (I mean both the chairman and the executive committee) were judged by our deeds. We tried not to lose the people's confidence and acted as a single team; this is why ours was not a surprise victory.

[Nahrebetska] One year has passed, and the level of your responsibilities has risen considerably higher. What

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motivated you to agree to a transfer to this high office which is also very significant in our state? Let us move on to the second set of questions.

Logic of Actions

[Kinakh] I will try to explain logical considerations behind my choice. My own experience in life has convinced me that it is impossible to implement any of the most balanced and substantiated programs for economic reforms in Ukraine in the absence of effective state structures of power, without a clear-cut separation of functions and authority of legislative, executive, and judicial power, taking into account their mutual balance and control.

I will add that the above rule is characteristic of the entire civilized world. We are not an exception. All countries which are developed and democratic rest on the separation of powers and an effective arrangement for governing the state.

Given the complexity and extent of socioeconomic problems, no success will be achieved in Ukraine without a vertical executive chain of command and without the highest degree of state discipline and professionalism.

[Nahrebetska] You have mentioned professionalism as a crucial factor in successful operations. Have you happened in your lifetime to meet unprofessional managers whose actions or, more precisely, lack thereof greatly harmed both their business and those around them?

[Kinakh] Certainly, many times. It is precisely to them that we "owe" economic, ecological, and social dislocations. It is very important for the approach to public service to also be professional.

As far as the separation of powers, legislatively mandated state discipline, and reinforcement of the executive vertical chain of command is concerned, I entirely support the Law on State Power and Local Self-Government in Ukraine. I am gratified that, despite existing serious ideological and political controversy in our society as to the essence and format of economic reforms, we were able to resolve the issue of power in a civilized manner, through the signing of the Constitutional Agreement between the president of Ukraine and the parliament.

At the same time, I am convinced that the agreement should be bolstered by specific actions of all branches of power aimed at stabilizing the socioeconomic situation.

[Nahrebetska] Pardon me, but you, just recently a council functionary, fervently support a return to the structure of state administrations which many people interpret as something of a departure from the democratic principles of state organizational development in Ukraine.

[Kinakh] We should not argue about the sign or the name, but instead proceed from the essence of the issue. Representative organs of power are indeed an attribute of any democratic state. They existed, they exist, and they will exist here, in Ukraine, too. At the same time they perform their characteristic functions throughout the world without directly interfering with the operation of state executive structures. The aforementioned law on state power aims precisely at focusing each branch of power in its judicial compartment to the benefit of our people and society.

As far as the reinforcement of the executive vertical chain of command is concerned, it is a pressing requirement of our time. It was precisely proceeding from this, from the need to bring the economic reforms initiated in our state to a logical conclusion, that I supported the reorganization of executive structures at all levels and agreed to head this effort in the industrial sector of Ukraine.

At the same time, I do not paint a rosy picture because I understand full well that the work and the position require me to give it my all, to work on my inner self, and to improve my knowledge, primarily in the management sphere. The scale of a possible error which I could make in the position of head of the oblast administration cannot be compared to an error on a nationwide scale.

There Will Be No Reforms Without Confidence

The vertical chain of command begins at the top. It should be built on the great responsibility of members of the government, its presidium, ministers, and the staff of ministries and departments.

The streamlining of the operation of the Cabinet of Ministers itself and strict control and responsibility at all stages of the drafting of government decisions are crucial. It is possible to gather together many wise people at the same time, but if their effort is not organized in keeping with the objective laws of management operations, we will not produce the desired results.

To my mind, a substantial shortcoming in the operation of the previous governments was found in the fact that many decisions and resolutions were approved without regard for the real socioeconomic situation locally.

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Also, the following should not be disregarded: The people should understand the objective which the government sets for itself and grasp what the reforms are being implemented for and how they are to be accomplished.

[Nahrebetska] That is to say, are you, Anatoliy Kyrylovych, an opponent of making policy "behind closed doors?" How do you think the problem will be solved?

[Kinakh] I believe that the edicts of the president of our state and the most important government resolutions of nationwide, societywide significance must be mandatorily commented on by the supreme officials of the state (the prime minister, deputy prime ministers) in the mass media, primarily in URYADOVYY KURYER. In the absence of this, we will not gain what is most important—the people's confidence, support for the verified policy—and hence results can hardly be expected.

[Nahrebetska] Will there be no reforms without the people's confidence?

[Kinakh] I insist on it. Sociologists and politicians alike should do their jobs. There should be debates, and the most diverse options should be discussed. However, this should be the case solely at the stage of drafting decisions. Once a decision has been made it should be carried out, this time without debate and discussion. I will note that the heads of oblast state administrations are subordinated in the vertical chain of command to deputy prime ministers; therefore, as public servants, they are fully responsible for the duties entrusted to them.

[Nahrebetska] Let us assume that this or that head of state administration has proposals aimed at perfecting a certain government decision or resolution....

[Kinakh] He can voice his proposals directly before us, or outline them in the Council of Regions which operates under the president of Ukraine. However, I repeat that any substantiated remarks shall be accepted at the stage of development of a document but once it is approved it should be carried out unconditionally.

[Nahrebetska] Anatoliy Kyrylovych, all domestic industry is subordinated to you....

[Kinakh] The structure of the cabinet has not been approved yet. Subordination must be documented. It is important for professionals who begin working at the Cabinet of Ministers to know that their ideas will be taken into account in cadre and structural changes, and so on.

[Nahrebetska] There has been talk of reorganizing ministries and streamlining the state machinery for many years now. It is the issue of determining the needed number of employees with needed skills in the areas needed.

[Kinakh] Indeed, it is worthwhile to take such experience into account. I am a resolute opponent of populist approaches to solving personnel problems. In each specific case we should proceed from functions which are entrusted to a particular ministry and its staff. We should definitely factor in the optimal level of management in the state structure. Reorganization is necessary directly in the Cabinet of Ministers staff. It is necessary to approve very soon bylaws for the operation of the supreme organ of executive power which would clearly set forth both the areas of subordination and mutual responsibilities of state structures.

I see my mission as a deputy prime minister in coordinating the operation of industry, devising strategic avenues for the development of sectors, elaborating preemptive measures, etc.

[Nahrebetska] What is your preliminary assessment of the state of affairs in our national industry? To my mind, the words of Leonid Kuchma from his presentation in Uzhgorod, to the effect that the entire operation of the new government will be subordinated to the objective of stabilization in production, made all of us somewhat more optimistic.

[Kinakh] Dwelling on this concept, he observed: Such a task is being set not only for the economy in general; it applies to each ministry, each oblast or rayon, each production collective. It is the task of ministers, heads of local state administrations, and managers of enterprises, organizations, and offices alike to overcome the slump.

Despite everything, Ukraine has retained a mighty industrial potential to this day. I include in this notion not only production capacity, capital, and machine tools, but also technologies, scientific developments, and most importantly, skilled personnel, our main asset. The state should ensure conditions for all of this to be used to the greatest possible benefit. All of us have already ascertained that the restructuring of production is impossible solely through the self-regulating mechanisms of a market economy. There ought to be a state policy, balanced state programs, manageable processes in industry, finance, and currency regulation, and support for the sectors which define the technological image of the state. This is, in brief, the scope of issues which I intend to work on in my position.

[Nahrebetska] I am sincerely grateful for the attention shown to our newspaper. Anatoliy Kyrylovych, we wish you success, patience, and inspiration which we hope will be supported by the people and produce results.

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***Simferopol Seen Shortchanged by Budget**

954F2881A Simferopol YUZHNAYA STOLITSA in Russian 21 Jul 95 p 1

[Commentary by E. Polenov, under the "Political Enlightenment" rubric: "Budget Adopted! City Surrendered?"]

[FBIS Translated Text] "Th.. th-is is the ol-ld ci... citty district, the l.. l.. living history of the Crim...mean cap...ital!"—my enthusiastic sightseeing tour for a guest was being treacherously ruined by potholes and bumps hidden by generous puddles.

"Su...uch a mar-vel!" facetiously gushed my friend, pitifully looking at crumbling houses. "A ready location to make war moo... movies..."

Exactly, one really wants to moo. But one gets the impression that the republic's main city is hopelessly decaying and soon will only provoke the curiosity of archaeologists and cinematographers. Does one need a more convincing illustration of the back-breaking toil of the Crimean authorities, vying to solve monumental problems of global policy from this dusty, disintegrating center of the peninsula?

I can imagine from my own experience the storm of indignation and anger raging in the soul of every Simferopol resident, ready at any time to assault the city ispolkom [executive committee]. "What the hell are you doing up there?... While we here, see?!.." Yes, my dear compatriots, you are absolutely right. However! Before putting the mayoralty forever in the pillory at the capital's central square as a lesson to future generations, allow me to draw a small picture as an analogy.

The head of a family earns, in current measure, 15 million karbovantsy, while his only runny-nosed kid begs on the street, because he and his parents are starving. An absurdity? No, it is just that 11 million are taken out of the father's salary in the form of taxes, with a wink: Live well, my friend, feel free to indulge yourself.

Simferopol is in precisely such a situation. The ispolkom must transfer into the republic budget 70 percent of the revenue received by the city treasury, and support the normal functioning of the city organism with the remaining 30 percent. Let me remind our readers: to build housing, patch streets, replace pipes, pay salaries to teachers and doctors, provide free lunches for children, collect trash in the city, and take care of another thousand things big and small, up to the electric bulbs in the stairways. But with the lack of money for all this, even if the chief of the repair and maintenance department explodes in flames of impotent rage, he still cannot substitute himself for that burned Ilyich light bulb. Not to mention that, with all due respect for Dzhankoy, or, for instance, Upper Kutuzovka, Simferopol, being a republic capital, needs special attention with respect to financing and deductions.

Alas, the Crimean Government does not believe so. Who knows why. Either they are unaware that capitals in all decent countries and states have a special status, so that, regardless of any difficulties, the capital city looks decent. Or their personal automobiles' windows are so heavily tinted, and the shock absorbers are so strong, that they do not see and do not feel the sad state in which Simferopol languishes. The same cold feeling toward the city is shared by the parliament, which last week discussed the autonomy's budget for the current year, which began, as everybody knows, on 1 January.

On the eve of the debates the mayoralty invited deputies, elected to the Supreme Council from Simferopol districts, to a meeting, to share its problems with them. Of 17 parliament members, who a year and a half ago swore to the electorate that they would sacrifice their life for the people's happiness, five showed up! Of the five, only one—Kovalskiy—brought up the question of the capital during the budget discussions in the Supreme Council. No comment is needed here, I believe.

As a result—what? Only one-fifth of the needed funds will be allocated for city improvements, road repairs, and sanitary cleanup. One-tenth of the housing repair needs will be funded. Health care gets one-half of the needed amount. There is practically no money to subsidize expenditures on municipal and household services, repairs of child-care facilities. Until now, the miserly amount of 146,000 karbovantsy a day was allocated for patient nutrition in a hospital. You know how much it will be now? All of 73,000 karbovantsy! Just the time to recall the commercial: "Eat a Visla candy bar and do what you feel like!" A patient wants only one thing after this: to fall asleep and never wake up.

But if sick people think that they will be better in the world beyond than in a healing institution, what about the children who have been denied free school lunches?...

The parliament finally adopted the budget. With a 35 percent deficit, which amounts to 13 trillion karbovantsy. (For comparison: In the countries we look at with envy, the budget deficit never exceeds 5-6 percent). This is tantamount to my going to a restaurant with 1 million in my pocket and a firm resolve to have fun for all five. With the equal degree of success, the deputies embellished the budget with clusters of all sorts

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of social "candy" and preferences, which, of course, the people will not even have a chance to take a lick at.

If anybody remembers, none of the budgets of the past few years were distinguished by an overly wise and judicious approach to local financing, or for that matter to the republic treasury as a whole.

The current one beats them all in this respect. Naturally, if the situation were reversed, citizens of Crimea simply would not believe their luck. But it happened exactly as expected.

First they do not let us earn normal money, then they strangle us with taxes, and after all this, they spend the money haphazardly....

Of course, the mayoralty will kill itself trying but will not let us drown in garbage. Of course, the ispolkom, as usual, will somehow, somewhere, find the money for medicines and hospital food. Of course, we will manage. But at what cost! And why is all our life like this—one step forward, two steps back?...

Informal Employment Sector Examined

954K0642A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 6 Jul 95 p 2

[Article by Rostyslav Makarets: "De Jure I'm Unemployed; De Facto I Earn Money But Do Not Pay Taxes"]

[FBIS Translated Text] **In recent years there has been a marked increase in the number of people who work without a job contract and whose employment is not reflected by existing statistics. Their earnings, sometimes substantial, are not taxed by the state. These people work in unregistered building and repair crews, engage in economic tourism, speculate in goods, conduct transactions invoiving foreign currency, hold security and auxiliary jobs, receive lump-sum payments for services rendered...**

Candidate of Economic Sciences Larysa Piddubna, lead specialist of the Scientific Center for Problems of Employment and the Job Market of the National Academy of Sciences of Ukraine and the Ministry of Labor, describes these activities and how widespread they are.

AN ALARMING SUBJECT

The problem of unregulated employment is being studied very actively in our country. First and foremost, because of the country's economic state, the falling standard of living, and the need to earn a living. Secondly, the weakening of administrative pressure by the state on the able-bodied population with respect to mandatory employment coupled with the growing number of labor resources made available through job loss provides the informal sector with substantial numbers of able-bodied individuals.

These people have limited access (or none at all) to organized markets, credit institutions, formal education, and the job training system. Circumstances often force them to act outside the law, inevitably leaving them uncovered by social security, labor legislation, and job safety measures. Who are the people employed in the informal sector in our country? According to the estimates of the Employment Service of Ukraine, more than 40 percent of youth in large cities and border regions are working in this sector. In addition, illegal commercial activity is most often coupled with an official job or being registered as unemployed by the employment service. Women and children are becoming especially vulnerable groups in the informal sector. Most tragic is the lot of children. Although the law prohibits the use of child labor in the informal sector, children work in harsh and unsafe conditions, often clandestinely. Lately, many children in Kiev sell newspapers on the street and in the subway stations or wash cars at intersections. Some sources of information have published articles about the use of child labor on plantations in the southern regions of our country and in other CIS countries.

All those working in the informal sector can be divided into three groups. The first consists of those who are temporarily forced to resort to this kind of activity, and a change in economic conditions (ending the decline of production, restoring the motivation to work, simplifying the registration of business activity, favorable tax conditions or making unregistered commercial activity more difficult, a more active fight against crime, and other factors) will encourage them to look for work at stable enterprises. The second group is made up of businessmen who have their own businesses but fail to register them or do not disclose the full extent of their activities because they need to conceal their profits owing to excessive state taxes, the existence of double taxation, and other difficulties. Under favorable economic conditions, they may switch to complying with the law.

However, this opinion may be mistaken, as evidenced by Argentina, where tax cuts did not produce a corresponding rise in registered businesses, inasmuch as most businessmen were accustomed to operating in the shadow economy and were in no rush to legalize their enterprises. If antibusiness legislation continues to be supported and passed in Ukraine, this same painful situation may occur in Ukraine as well. The third group of the population [as published] is inclined for the most part towards unregulated activity under any circumstances. These people have engaged, do so now, and

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will continue to engage in unregulated activity (racketeering, gambling, prostitution, etc.).

The number of able-bodied individuals engaged in private subsidiary and household-based operations in Ukraine as a whole has increased 1.5-fold in recent years. This indicator approaches the objectively normal level seen in countries with freely forming job markets, where it ranges between 12 and 15 percent, in some cases reaching 20 percent, of the able-bodied population.

Among the reasons for the significant spread of unregulated employment are Ukraine's flawed laws and a heavy tax burden, which leads to a substantial degree of concealment of taxable income and, correspondingly, a shift of a portion of business activity into the unregulated sphere. Estimates indicate that for every person in Kiev employed by a small enterprise, cooperative, or the like, there are eight to ten persons that work in unregulated jobs. At the beginning of 1995, the "wild job market" with unregulated jobs and untaxed earnings encompasses at least one third of those de facto employed in the sectors of the national economy and nearly 27 percent of all those of working age.

The unemployment level among the total working-age population has reached 12-14 percent in recent years. According to official reports, this was the level at which registered unemployment halted in Poland, and the numbers for Romania, Hungary, and Slovakia are similar.

Taking into consideration the present state of the economy, particularly the decrease in production volumes, the decline of the living standard, the policy of freezing wages, and the ambiguousness of the privatization program, it can be said with certitude that unregulated employment will remain at a substantial level for quite some time yet. A radical solution to this problem depends, above all, on recovering from the present economic crisis, carrying out privatization, creating stimuli to promote production growth, surmounting inflation, and raising wages; secondly, on improving he system of state taxation of state enterprises, organizations, and institutions, as well as youth business structures, in order to make their operations profitable not only in intermediation, but also in production, and to provide them with incentives to develop civilized forms of small business.

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